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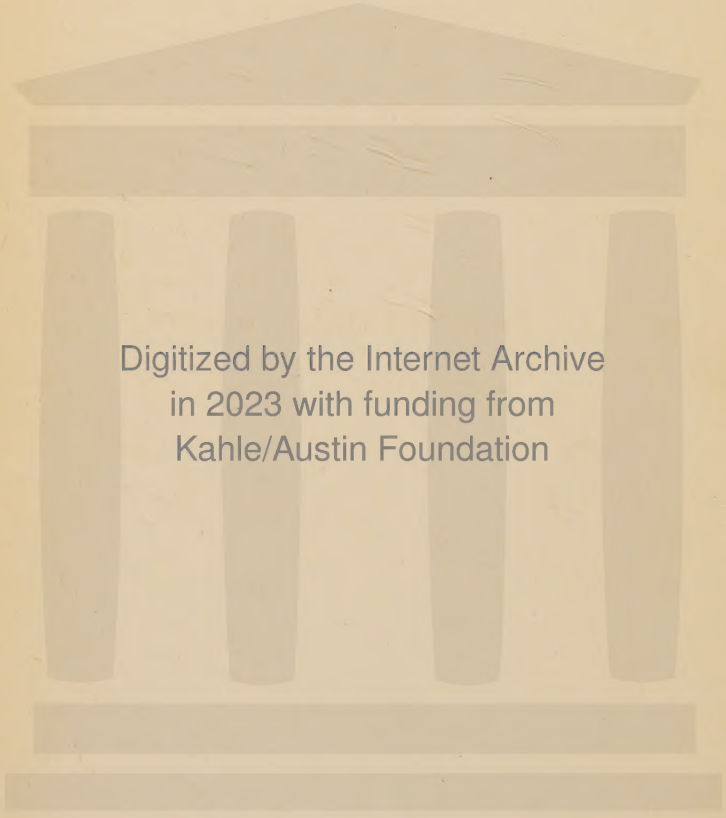

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SOCIAL ASPECTS OF INDUSTRY

SOCIAL ASPECTS
OF
INDUSTRY

A SURVEY OF LABOR PROBLEMS AND
CAUSES OF INDUSTRIAL UNREST

BY

S. HOWARD PATTERSON, A. M., Ph. D.,
Professor of Economics, Wharton School, University of Pennsylvania
Author of "Family Desertion and Non-support," Co-author of
"American Social Problems," "Problems of American
Democracy," "Economic Problems of Modern Life"

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PREFACE

The purpose of the present volume is that of an introductory survey of a number of social problems of industry. Although many excellent texts on labor problems are now available, many of these books treat somewhat in detail a rather restricted number of topics. Again, labor problems are frequently approached from the aspect of industrial management rather than from a broad social and economic point of view.

"Social Aspects of Industry" begins with introductory chapters on the environmental background of labor problems, as found in our present complex industrial organization and in our legal and political institutions, a short survey of which is then supplemented by a brief discussion of immigration and our labor supply.

A fundamental problem of industry is that of income and standards of living. Consequently, Part II of this book treats of our increased national prosperity, labor's share thereof, and the persistent problems of economic inequality and poverty.

Our approach toward the social problems of industry is a threefold one, that of the state through legislation, that of organized labor through collective bargaining, and, finally, that of the liberal employer. Part III treats of various industrial maladjustments and the problems of human conservation, stressing the role of the state through legislation. Part IV is concerned with the problem of organized labor, the approach of collective bargaining, and the various devices for securing increased wages and shorter hours. In Part V is discussed the approach of the employer, as represented by employee representation and profit sharing.

Part VI discusses comprehensive programs of economic reconstruction such as the cooperative movement, socialism, and syndicalism. In conclusion, a brief discussion of economic and social progress is essayed.

A study of the social problems of industry lies within the twilight zones between economics and sociology, and between economics and political science. All industrial problems have their social consequences, and they also involve governmental action for their solution. Although realizing the composite nature of labor problems, the author has attempted to treat them as a part of applied economics. Indeed, the present volume grew out of a text on general economic problems.

Because of the rather general nature of this text, most labor problems are discussed briefly. Indeed, many important phases of management are omitted entirely. It is obvious that technical problems and specialized fields cannot be treated adequately in such a brief and general survey.

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Again, no claim is made for originality, except perhaps for the hazardous attempt to cover so large a field in one volume. The findings of numerous research students have been freely used, but due acknowledgement is made wherever possible in the footnotes.

This text is intended merely to carry the general thread of the story, and it is hoped that time will permit the teacher to supplement this work by library readings in the many good books in the various fields which are here represented. At the end of each chapter are specific collateral readings, including brief articles and particular chapters in well-known texts. An additional list of references, including reference books and special treatises, is appended to each chapter. At the end of each chapter are also a list of questions for discussion, which are based on the reading in the text, and a list of topics for investigation, which invite the students to do a little outside reading and independent thinking.

S. H. P.

PHILADELPHIA, PA.
June, 1929.

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SOCIAL ASPECTS OF INDUSTRY

CHAPTER I

MODERN INDUSTRIALISM AND THE CHANGED ECONOMIC ENVIRONMENT

SOCIAL UNREST AND NEW IDEALS OF INDUSTRY

1. Nature of Industrial Revolution.—The Industrial Revolution may be defined as the changes involved in the invention of power machinery and the substitution of the factory system for individual craftsmanship and the domestic system. The term "revolution" merely indicates the sweeping changes involved in the complete reorganization of our economic life.

Because the Industrial Revolution was a gradual evolution, the suddenness and rapidity of which are only relative, it is difficult to give exact dates to this momentous movement. It is impossible to say just when the Industrial Revolution began or just when it ended. Perhaps it is still in progress, for the series of inventions has been fairly continuous.

It is generally conceded that the Industrial Revolution first took place in England. Indeed, the Industrial Revolution, in the narrow sense of the word, refers to the changes in the English textile industries which took place in the latter half of the eighteenth century. The spinning jenny of Hargreaves, invented in 1764, is a convenient date to mark the beginning of the new movement. It was followed by the water frame of Arkwright and the spinning mule of Crompton, which combined the best features of the two earlier inventions. Weaving, as well as spinning, was revolutionized by the development in 1785 of the power loom of Cartwright.

Although these important mechanical inventions meant the decline of the domestic system in the textile industries, water power was first used to run the machinery in the new factories. James Watt's invention of the steam engine, the first patent for which was granted in 1769, furnished a new motive power for manufacturing, however, and the small water-power mills gradually gave way to large steam-driven factories.

The Industrial Revolution, in the broad sense of the word, affected methods of transportation and communication, as well as manufacturing. As a continuation of the same general movement must be noted Fulton's

invention of the steamboat and Stephenson's invention of the locomotive in the opening decades of the nineteenth century. Improved methods of communication followed improved methods of transportation. The telegraph, the telephone, and the radio put in their appearances in the order named about a generation apart. At the present time electricity bids fair to displace steam as a motive power for both manufacturing and transportation. The development of giant power and the production of hydro-electricity will revolutionize still further the economic life of the future.

Although the industrialization of Germany and continental Europe did not take place until several generations after that of England, many of the states of western Europe are now manufacturing nations rather than chiefly agricultural countries. At the present time eastern Europe and the Orient are feeling the quickening pulse of the Industrial Revolution. Factories have been started and machinery is being imported. Cotton mills are springing up in ancient India and within sight of the Egyptian pyramids. Silk mills have been built in Japan and railroads in China. Oriental peoples numbering hundreds of millions are now experiencing the throes of the Industrial Revolution. In spite of the so-called "progress" of the past hundred years many of the same economic maladjustments which appeared in England during the Industrial Revolution are now again displaying themselves in some of the more newly industrialized sections of the world.

2. Industrialization of the United States.—The industrialization of the United States came several generations after that of England. At the opening of the eighteenth century less than 4 per cent of our population lived in cities of ten thousand inhabitants, and as late as the middle of the past century over 87 per cent of our population was still rural. Except for a few manufacturing and commercial centers in New England and the Middle Atlantic states, the typical American family of a century ago lived on a farm, which was economically self-sufficient to a considerable extent. In the South slavery and the plantation system flourished. To the West lay an unconquered continent with fertile farms for the asking. The philosophy of individualism was part of the democracy of the frontier which helped to keep alive the economic policy of *laissez-faire*. In spite of the institution of slavery, labor problems, in the modern sense of the term, did not then exist, because of the relative unimportance of manufacturing and the relative absence of huge congested industrial centers.

Although a few water-power mills had existed in colonial America, it was not until a generation after the achievement of independence that manufacturing really developed in the United States. During the War of 1812 and the Embargo and Non-Intercourse Acts which preceded it, the New England states began to manufacture cotton cloth instead of

importing it from England. But it was not until the Civil War that the thorough industrialization of the United States began. Impelled by the necessities of this great conflict and encouraged by a high protective tariff, which continued long after the war was over, many of the basic industries of this country took a firm hold. The manufacture of iron and steel products, the boot and shoe industry, and many other manufactures were added to the already developing textile industry.

This post-war development of manufacturing was accompanied by the introduction of large-scale production, as well as by the wide extension of the factory system and power machinery. Great manufacturing areas developed and the number of urban wage earners increased from a few hundred thousand to several millions. Although the World War accelerated this industrialization of the United States, our urban population exceeded our rural population even before our entrance into this conflict.

During the last few decades of the preceding century and the first decade of the present century, the increasing demands for unskilled labor were met by an enormous immigration from Europe. New and extraneous elements were added to our labor supply, for the new immigrants could not readily be absorbed by the native workers, whose standards of living were threatened by these new arrivals.

The organization of labor accompanied the industrialization of the United States, for it brought with it new forms of exploitation and new maladjustments. Strikes and other labor disturbances testified to the existence of industrial unrest and the necessity of governmental regulation. With the spread of the Industrial Revolution to the United States, labor problems in the modern sense of the term appeared and *laissez-faire* in the original sense of the term disappeared.

3. Effects of the Industrial Revolution.—Just as the Renaissance separates medieval from modern history, and as the French Revolution separates the acient régime from the new, so the Industrial Revolution separates the old economic order from our modern industrial life. Many of the leading economic problems of today may be traced back to the Industrial Revolution, which changed the whole character and organization of our economic society.

The Industrial Revolution was a tremendous period of economic adjustment which has not yet subsided. The French Revolution, which took place at about the same time as the Industrial Revolution, was far more spectacular and attracted far wider attention. But although the French Revolution produced profound social and political changes throughout the entire world, it is doubtful if it revolutionized the lives of succeeding generations as much as did the Industrial Revolution.

Judged by a purely materialistic standard, the world of Napoleon and Washington had much more in common with the ancient civilizations of Alexander the Great and Julius Caesar than it had with the

modern world of Marconi and Lindbergh. During the two thousand years preceding the Industrial Revolution, tremendous cultural, religious, and political changes had taken place, but progress in the arts of production, transportation, and communication was made slowly. To be sure, there had been some improvements in methods of farming, but they were rather recent. The invention of agricultural machinery was a triumph of the nineteenth century.

Homespun cloth was worn by the patriots who suffered at Valley Forge, and the cumbersome hand loom was still in use. Methods of illumination had improved no more than methods of manufacturing. Oil-burning lamps, similar in principle to those of ancient Rome, afforded the best method of illumination. Tallow candles were also in common use. Young Benjamin Franklin, for illustration, was engaged in the occupation of making candles by hand in the home of his father.

Modern means of communication, such as the telegraph, the telephone, and the radio were undreamed of. The methods of travel used by the troops of Napoleon were hardly superior to those employed by the legions of Julius Caesar. Indeed, many of the old Roman roads were still in use and some of them sadly in need of repairs. Men journeyed on land afoot or by horse. The small sailing vessel made water transportation slow and uncertain.

The effects of the Industrial Revolution have been glimpsed from this comparison. Fabulous wealth was produced by the improved methods of production, and additional comforts of life resulted from the new inventions. Although the population of Europe had remained almost stationary during the Middle Ages, within the century following the Industrial Revolution it was possible for Europe to support more than twice its former number of inhabitants. Great cities arose which were many times larger than the former medieval towns.

The Industrial Revolution made manufacturing lose its etymological significance of making by hand. The substitution of expensive power machinery for the simple hand tool necessarily involved the substitution of the factory system for the domestic system. Manufacturing went outside the home and into the factory, since to use machinery economically it was necessary to produce on a large scale. Scores and even hundreds of hands were now employed under one roof.

The new machinery was too expensive to be owned by the workers themselves. Hence, they lost the ownership of the instruments of production and the control of their conditions of employment. A new group of capitalists arose who took over the balance of power from the former landed aristocracy. A different social stratification and a new class consciousness were created.

As machinery did not require the skill or strength of the former craftsmen, it could be operated by women and children. A sad page in

the history of the Industrial Revolution is that of the exploitation of the unorganized and defenseless workers, particularly the children of pauper parents in English poorhouses.

Machine production involves a rather minute division of labor, which is both monotonous and fatiguing. Nevertheless, the introduction of the factory system was accompanied by long hours of work from sunrise to sunset. Again, the increased use of capital in the form of specialized machinery made the process of production more roundabout, as well as more highly specialized. Hence, the increased danger of maladjustments between the demand for labor and the supply of labor.

An immediate effect of the introduction of power machinery was to create temporary unemployment by throwing a number of hand weavers out of work. The craftsmen who were displaced by these changes of the Industrial Revolution sometimes retaliated by wrecking the new machinery and by burning the factories. These maladjustments of the Industrial Revolution may be regarded as a cost of economic progress, but its disadvantages must be carefully weighed against its advantages.

4. Dilemma of Modern Capitalism.—This brief review of the effects of the Industrial Revolution indicates that modern economic society is far different from that which existed in the days of the guilds and the domestic system. The introduction of power machinery and the factory system has produced a new economic order and has created certain social problems of industry. The genii which Watt discovered under the lid of a steaming kettle are able to lighten the tasks of the worker and to bring him new comforts of life. On the other hand, the machine and the minute division of labor which it involves may become oppressive and relentless tyrants. The Iron Man of modern industrialism may become the servant of civilization or a fiery Moloch which demands its human sacrifices. Time and space have been conquered by the utilization of the steam locomotive, the urban subway, and the high-powered automobile, but the dangers of transportation and the interdependence of individuals have been increased. Economic progress has its costs as well as its comforts, and its dangers as well as its delights.

Economic progress has been accomplished chiefly by the development of the machine and modern technology. The machine may be regarded as a tool or series of tools operated automatically rather than guided by human skill, and propelled by some mechanical power rather than by human muscle. Technology has been defined as the application of science to the problems of economic production.

The advantages of the machine are too numerous and too apparent to mention. Compare a modern printing press with the former hand press or with the still more primitive method of copying manuscripts by scribes. Such illustrations might be multiplied, but the student of economics is aware of the advantages of the machine and of the role of

capital in our modern life. By means of our recent mechanical inventions, economic productivity has been so increased that much more wealth can be produced in a few hours than formerly in a much longer time. If the gains of economic progress have been fairly well distributed, standards of living should be raised and leisure time should be increased for all members of society.

The benefits of capital, however, must not be confused with those of capitalism. The term "capital" is usually used to refer to those material products of past labor which are used in further production. Capitalism, on the other hand, is an economic order or social system characterized not only by the extensive use of capital, but also by the institution of private property in capital goods and other forms of wealth. Capitalism also involves individual enterprise, as contrasted with the collective ownership and operation of the instruments of production.

In addition to these institutions, the term "capitalism" is regarded as including such concepts as the gain spirit and the profits motive, money and freedom of exchange, the wage system and freedom of contract, the voluntary and spontaneous cooperation of specialists, and, finally, the automatic regulation of production by the mechanism of market prices.

The coming in of capitalism took place in early modern times, but industrialism is the recent phase of capitalism which was ushered in by the Industrial Revolution. Industrialism involves the use of power machinery, the factory system, large-scale production, and minute specialization.

The Industrial Revolution is a relatively recent event in the long story of economic evolution, and society is still suffering from numerous maladjustments which followed in its wake. Great possibilities for good and grave social dangers seem woven inextricably into the fabric of modern industrialism. Under our capitalistic régime the benefits of capital have not been evenly distributed. Again, economic progress has had its human costs, and social welfare has sometimes been sacrificed to an economic prosperity which has not been diffused throughout society.

5. Impersonality and Interdependence of Modern Industrialism.—The complex industrialism of today affords many interesting contrasts with a simple agricultural community, such as that of the pioneer days. Among the chief points of contrast are the complexity and impersonal character of modern economic life. The economic relationships of a local economy and an agricultural community were direct, personal, and relatively simple. The medieval manor affords another excellent illustration of a local self-sufficient agricultural economy.

Even within the towns the commercial and industrial life of the Middle Ages was relatively simple, direct, and personal. Honesty may have been

the best policy for the medieval guildsman who could not escape from a personal responsibility for the quality of his own product. Industrial efficiency was built up around a personal loyalty, and the relationship of the master worker to his apprentice was almost paternal. Even in the days of Negro slavery in the United States the patriarchal relationship of the master to his slaves was apt to breed a certain consideration for their personal welfare.

The coming in of capitalism and especially the development of modern industrialism have completely changed this situation. Modern economic life is as complex as it is impersonal. The development of division of labor and the extension of markets have magnified the importance of price as the automatic regulator of production. The invention of power machinery and the development of the factory system have standardized our lives as well as our goods.

The growth of cities and the improvement in transportation facilities have intensified the impersonal character of modern civilization. The complexity of modern life has made individuals interdependent to an unprecedented degree. The development of extreme specialization and world-wide markets has made our economic and social contacts as numerous as they are impersonal. We do not produce goods for individuals who are known to us, but for a distant and impersonal market. We consume daily the commodities and services produced by innumerable and often invisible strangers.

What are the consequences of such a situation? Who indeed are our neighbors? Urban dwellers frequently do not know those who reside in their immediate vicinity. Employers cannot know their employees or their customers. Stockholders know little of the details of the business of which they are the ultimate owners. Absentee capitalism has supplanted absentee landlordism.

Personal relationships beget sympathy and understanding, but impersonal relationships often result in apathy and misunderstandings. Thus, the constant pressure to pay dividends may influence plant managers to cut expenses at the social cost of lowered wages. The wearers of fashionable clothing may not know that their garments were produced under sweatshop conditions. The receivers of income from an estate in trust may know nothing of the uses to which the real estate is put, nor the hardships which the foreclosure of a mortgage may involve. The lure of a low price may induce the kind-hearted but ignorant consumer to buy with avidity Christmas gifts produced by child labor and to ignore the products of "shut-ins," who are striving to maintain their economic independence.

It is our purpose to outline some of these social problems of modern industry and to review the various ways out of the dilemma. A survey of labor problems is often a distressing economic pathology, but the

student should see the possibilities of social welfare behind the clouds of industrial unrest. Economic prosperity and human conservation are as reconcilable in industry as efficiency and democracy in government. A quickened social conscience can burst the shell of vested interests and a stimulated public opinion can shatter "the cake of custom." The rational social control of industry can supplant the inertia of the masses, and the development of intelligent leadership may put to shame the selfish activity of demagogues.

6. Causes of Industrial Unrest.—One cause of industrial unrest is the existence of glaring economic inequalities. Large fortunes exist simultaneously with inadequate wages. Although economic progress has made for higher standards of living, there still exists the persistent problem of poverty. Moreover, the Industrial Revolution has created or intensified certain other industrial maladjustments. Among them are the problems of child labor and the exploitation of women.

Extreme specialization and the resulting interdependence of our modern economic life have reflected themselves in the problem of unemployment. The use of new and powerful machinery in place of the former hand tools has increased the danger of industrial accidents and the susceptibility of the workers to fatigue. Hence, we have the problems of safety and health in industry, as well as the necessity for social insurance against these new human risks of industry.

Modern industrialism has meant the decline of craftsmanship and the loss of the ownership of the instruments of production. This increased dependence of the workers on their employers has resulted in the growth of labor organizations. Machinery and the factory system have divided society into a capitalist class and a wage-earning class. This economic line of cleavage was not drawn so sharply before the Industrial Revolution.

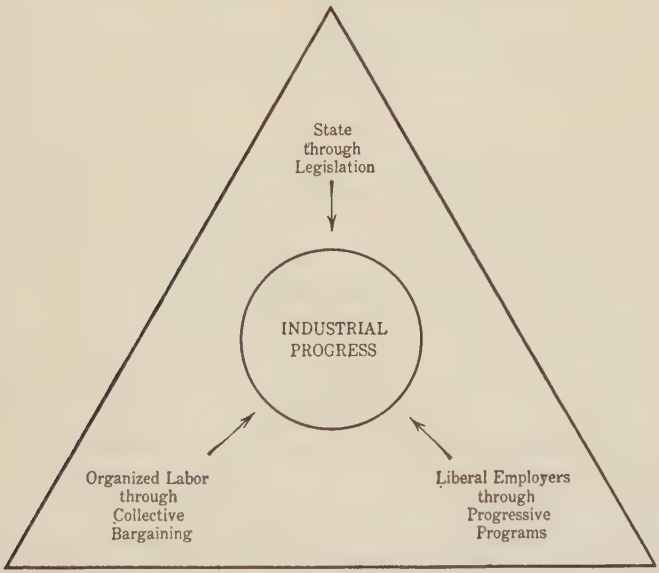
Because of the disadvantages of the individual worker, collective bargaining has injected itself into the wage system and has modified the former system of individual contract. The conflict of interests between labor and capital and the militant organization of both sides have resulted in such economic maladjustments as strikes and boycotts. The elimination of this source of economic waste and the promotion of industrial peace are conditioned by the cooperation of workers and employers.

7. Channels of Industrial Unrest.—Social unrest is a characteristic of a dynamic society. A relatively static society, like that of medieval Europe or China several generations ago, suffered from maladjustments of which it was not fully conscious. Adjustment is the securing of greater harmony within the social organism or its better adaptation to the economic environment. Intellectual progress and the process of invention and discovery permit constantly better adjustments. But

social unrest also arises from popular education and the greater diffusion of acquired knowledge. The consciousness of certain maladjustments is naturally followed by a desire to eliminate them.

The process of adjustment may be either evolutionary or revolutionary, according to whether the process is relatively slow or rapid. The spread of public education and the development of democratic ideals have made for a greater sensitivity to industrial maladjustments than ever before. Hence, social unrest exists today in an unprecedented manner. It is only to be feared if it remains inarticulate and finally explodes in some sudden and violent attempt at adjustment. The recent

CHART 1.—THE TRIANGLE OF LABOR PROBLEMS



The three supplementary but often conflicting approaches to labor problems and industrial progress.

Russian situation, like the first French Revolution, indicates the danger of long suppression and sudden expression. Progress represents conscious evolution and orderly adjustment, rather than the blind efforts of mob leaders to remove economic maladjustments from the backs of the masses.

Social unrest in the United States has reflected itself in a number of ways, such as humanitarian and labor legislation, collective bargaining and the organization of labor, and, finally, in such critical schools of thought as socialism and syndicalism. The purpose of this book is to outline a number of industrial maladjustments and to examine some attempts at adjustment by the state from without industry and by organized labor and individual employers from within industry.

8. New Ideals of Industry.—If economics is the social science of wealth, one of the chief objectives of applied economics must be the production of more wealth. Prosperity is a primary ideal of the new industrial society. Economic prosperity may be defined as the relative abundance of economic commodities and services.

Economic prosperity depends on the natural resources of a nation and the skill and industry of its people. It is further conditioned by the process of invention and discovery, and by the accumulation of a social surplus in producers' goods, as well as in durable consumption goods. The importance of the machine and technology to our present economic prosperity has been sufficiently stressed.

An economics of welfare realizes the importance of prosperity, but it seeks the diffusion of this prosperity throughout the entire group. Moreover, it stresses the fact that economic prosperity is only one of many social goals. Again, it analyzes the social costs of economic prosperity.

It does not profit a group any more than an individual if it gains the whole world but loses its own soul in the process. The greatness of a civilization and the degree of its culture are not necessarily proportionate to the size of its national income. The per capita wealth of Periclean Athens was small as judged by modern tests, but its standards of art and culture have come down across the centuries and have permeated many other lands.

The kinds of economic wealth which are produced are as important as its amount, and the wise use of our leisure time is as necessary as a mere increase in the amount of leisure. John Ruskin[1] has said that there is no wealth but life, and to him wealth consisted chiefly of things of beauty and deeds of service. Indeed, he devoted much of his energy to the preaching of spiritual and cultural ideals in what he considered an age of materialism. He deplored the Industrial Revolution, which had flooded the world with ugly, standardized, machine-made goods. John Ruskin felt that this sort of economic prosperity was inimical to social welfare and represented retrogression rather than progress.

An economics of welfare must consider the methods of production, as well as the nature and amount of the product. Producers must not be sacrificed to product, nor human beings to economic goods. The well being of the individual worker, physical, mental, and spiritual, must not be jeopardized.

In a revolt against the price economy of the classical theorists Professor John A. Hobson[2] has attempted what he calls a "human valuation for industry." Human costs of production, rather than monetary

[1] *Cf.* Ruskin, J., "Essays on Political Economy," "Unto This Last," "Crown of Wild Olives," "Sesame and Lillies."

[2] *Cf.* Hobson, J., "Work and Wealth, a Human Valuation for Industry."

expenses of production, are made the cornerstones of his work. Social rather than economic factors are stressed.

The economic ideal of prosperity and the social ideal of group welfare are, in turn, conditioned by the related ideals of efficiency and conservation. These are supplementary, for efficiency means maximum production, and conservation, minimum waste. Efficiency involves not only maximum production, but also minimum effort. Modern personnel work has supplemented the older scientific management, as a new concept of human engineering has come into existence.

Conservation includes not only the conservation of our natural resources but also the conservation of our human resources. At present, men and women go to waste in many different ways. Illustrations are men out of work or maimed by preventable accidents, children in blind-alley jobs, expectant mothers at work in unsanitary factories, and a high rate of infant mortality caused by miserable housing and a lack of proper medical care.

The earlier economists stressed production, value, and distribution, but dismissed consumption with a mere word. Psychologists are now endeavoring to explore this dark continent of economics. Sociologists, also, are studying standards of living and family budgets in order to show us how to live more efficiently. This ideal requires not only greater prosperity, but also increased leisure time. The best use of this increased leisure time requires at least the elements of a liberal education.

Historical essayists have indulged in the interesting platitude that the Renaissance gave the world intellectual liberty, the Reformation religious liberty, and the French and American revolutions political and social liberty. The task of the centuries which follow the Industrial Revolution is the achievement of an industrial democracy. Labor is seeking an increased share, not only in the product of industry, but also in the control of industry.

Although the socialists and certain radical groups would destroy modern capitalism and build a new economic order, conservative labor leaders are pleading merely for the copartnership ideal in industry. Political democracy must be paralleled by an economic democracy. The worker as a citizen has a vote, but as a worker he has little voice in the determination of the conditions of his employment. Labor organizations have developed outside rather than inside the factory walls.

Equality of opportunity is a kindred economic ideal. This does not mean a flat equality of wealth or income, nor does it imply biological equality. Because of the existence of the biological principle of variation, men are not created equal. Equality of opportunity merely means that all individuals be given an equal chance to become unequal; that is, to develop to the limits of their physical and mental heredity.

Cooperation is an economic as well as a social ideal. The elimination of conflict, however, does not necessitate the extinction of competition. Economic competition is an important factor for the securing of greater efficiency. The force of competition, however, must be socially regulated, for predatory and non-desirable forms of competition must be eliminated, so far as possible. Destructive conflicts of an industrial as well as a military nature are the sources of tremendous human and economic waste. They are the antitheses of cooperation and conservation.

The social control of modern industrialism involves the substitution of cooperation for conflict and the regulation of competition in the interests of productive efficiency and social welfare. Just as the active adaptation of the physical environment involves the building of river dams and dykes to utilize the water power which nature has provided, so the conscious adaptation of our social environment involves the guidance of the natural force of competition through socially desirable channels. Military or industrial conflicts represent the breaking down of artificial levees and the devastating floods of uncontrolled natural forces.

9. Education and a Social Morality in Industry.—The complexity and impersonality of modern economic life necessitate a long-range instead of a short-range vision. Intelligence, rather than emotionalism, and knowledge, as well as altruism, are involved. But especially does our present economic interdependence necessitate a social as well as an individual conscience. Individual morality must broaden into a social morality. If the meek are to inherit the earth, a campaign of education is necessary to produce a new and socialized type of individual.

The possibilities, as well as the difficulties, of such an educational program are enormous. It requires a complete change in our social heredity. Although our social heredity, as contrasted with our physical heredity, is acquired rather than inherent, it is almost as difficult to modify. Individual habits are hard to change, and an institution is a social habit of thought. Group attitudes and class prejudices are difficult to modify, in spite of the fact that they may be irrational and detrimental to group welfare. But if modern civilization is to survive, a social morality must be evolved which will meet the needs of our complex and impersonal industrialism. In other words, a social and educational adjustment must be made which will parallel the economic and technological adaptation which has been made to our physical environment.

It is very natural for the social heredity of past generations to dominate the thoughts and actions of succeeding generations, although conditions have changed greatly in the meantime. Thus, struggle, a caste system, and exploitation were parts of the social heredity of antiquity. Although the progress of science and the invention of power machinery have made possible increased leisure time, higher standards of living,

and improved working conditions, public opinion and legislation are slow to adjust themselves to these new conditions.

Professor Patten[1] regarded the Industrial Revolution as a period of transition from an older economy of pain and deficit to a new economy of pleasure and surplus. Recent inventions and discoveries have so increased production that ruthless conflict is no longer imperative, and exploitation is economically as well as socially unjustifiable. Nevertheless, past traditions of sharp practice instead of ideals of social service continue to dominate our thoughts and actions. The gain spirit and the profits motive have made us evaluate human beings themselves in terms of the dollar mark.

Recent economic changes require a mental and social adjustment in which cooperation will triumph over conflict, and in which competition will be forced into peaceful and productive channels, rather than into militant and destructive channels. A social morality will supplant an individual morality when "he profits most who serves best." The dignity of labor will be found to lie in its social usefulness rather than in its rate of compensation. One need not be a socialist in order to hope that in the economic life of tomorrow social approbation may be a relatively greater industrial stimulus and that economic acquisition may play a less important role.

10. Summary.—Capitalism is an economic order or social system characterized not only by an increased use of capital but also by private property and individual enterprise, rather than by the collective ownership and operation of the instruments of production. Capitalism also involves money, exchange, markets, the wage system, the profits motive, and numerous other features. Industrialism is the recent phase of capitalism which was introduced by the Industrial Revolution.

The Industrial Revolution may be defined as the invention of power machinery and the substitution of the factory system for the domestic system of production. It appeared first in England in the latter half of the eighteenth century in the great mechanical inventions in the textile industries. The Industrial Revolution later developed improved methods of transportation and communication, as well as those of manufacture. It spread from England to the continent of Europe and to the United States.

The Industrial Revolution has affected our methods of production and our modes of life. Machine production has meant more goods in less time, that is, increased wealth with greater leisure. But these gains of the Industrial Revolution were not evenly diffused throughout society. The immediate effects of the factory system were increased exploitation, rather than greater social welfare.

[1] *Cf.* PATTEN, S. N., "New Basis of Civilization" and "Theory of Social Forces."

Modern methods of production are also dangerous, monotonous, and fatiguing. Moreover, the use of power machinery has meant the loss of ownership of the instruments of production by the workers, and the factory system has resulted in the loss of control by the employees over the conditions of their employment. Modern industrialism has also made our modern economic society extremely interdependent, highly standardized, and very impersonal.

The dilemma of modern industrialism merely means the social costs of economic progress, that is, the relative advantages and disadvantages of the Industrial Revolution. It would seem that technological progress in the arts of production has been much greater than our social adjustment to the changed economic environment. The present social unrest is due to the existence of numerous maladjustments and to the desire to eliminate them.

Causes of industrial unrest are inadequate wages, subnormal standards of living, economic inequality, child labor, excessive hours, poor working conditions, industrial accidents, occupational diseases, and unemployment. Symptons of industrial unrest are to be found in a high rate of labor turnover and numerous industrial conflicts, such as strikes, lockouts, and boycotts.

Progress represents a conscious evolution or a purposive adjustment toward certain economic goals or social ideals. Adjustment may be evolutionary or revolutionary, according to whether the process is relatively slow or rapid. Economic progress has been made by the state through legislation, by organized labor through collective bargaining, and by individual employers who have voluntarily introduced experimental and humanitarian projects. Social adjustment may take the form of a modification of our present economic system, as suggested by conservative labor leaders, or by its complete reorganization, as demanded by syndicalists and certain socialists.

Prosperity is an important economic ideal of a progressive society. It may be defined as the relative abundance of economic goods. Economic prosperity involves not only increased production, but also a more equitable distribution. Efficiency implies maximum production with minimum effort. Conservation is a supplementary ideal, for it implies minimum waste. Human conservation is even more important than the conservation of our natural resources. Industrial cooperation seeks the elimination of conflict but not of competition. Competition should be socially regulated and directed through economical rather than uneconomical channels. Industrial democracy and equality of opportunity are also relatively new but important economic ideals.

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Questions for Discussion

1. What do you understand by capitalism and industrialism?
2. What do you understand by the Industrial Revolution?
3. Indicate some of its different phases.
4. Outline the economic, social, and political results of the Industrial Revolution.
5. What do you understand by the dilemma of modern industrialism?
6. Indicate some of the chief causes of the present industrial unrest.
7. What are some evidences of industrial unrest?
8. Is industrial unrest a dangerous sign? Why or why not?
9. Indicate different channels of unrest and the various methods of adjustment.
10. What is progress and what is a social ideal?
11. Outline some economic ideals of a progressive society.

Topics for Investigation

1. Ruskin's concepts of wealth and of the Industrial Revolution.
2. Hobson's concept of a human valuation for economics.
3. Pigou's concept of a welfare economics.
4. Patten's concept of an economy of pain and pleasure.
5. Nature and possibility of progress.
6. Nature and possibility of welfare economics.
7. Pure and applied economics.

CHAPTER II

THE BACKGROUND IN OUR SOCIAL AND POLITICAL INSTITUTIONS

PRIVATE PROPERTY, INDIVIDUAL FREEDOM, AND SOCIAL CONTROL

1. Nature of Social Control.—Social control refers to the influence of society over the thought and action of the individuals composing it. By the exercise of social control the activities of individuals are brought into conformity with the opinion of the group. An individual is restrained from actions which are regarded as unsocial and impelled toward those which meet with popular approval. An unsocial act is one which is regarded as inimical to the best interests and perpetuity of the group.

Social morality is an old problem, but it presents certain modern phases. In the first place, as was shown in the last chapter, the necessity for increased social control has been occasioned by the economic changes of the Industrial Revolution. Greater social control is now demanded by the interdependence and impersonality of modern economic life. In the second place, the character of social control has also been modified by the course of history. Civilization requires increased social control, but it also implies improved social control. Progress should be accompanied by a rational rather than an irrational control and by democratic rather than autocratic forms of social control.

Social control and group morality are very ancient. Various groups of people have evolved different codes of conduct, each of which has been associated with its own concept of social welfare, and each of which has been regarded by its own devotees as contributing to the longevity of that particular group. But these codes of social morality were rarely rationally determined. They contained blind superstitions and crude folkways, which were associated with social welfare only by illogical inference. Again, these codes of social ethics were often autocratically enforced by priests, elders, and kings who arbitrarily and severely punished individual derelictions.

The present problem of social control is to achieve a "scientific morality," that is, a code of social ethics which is rationally determined and which is sufficiently plastic to be modified as our social and economic organization changes. A scientific morality has been defined as that code of conduct, rationally determined, which makes for group longevity.[1]

[1] Carver, T. N., "Essays in Social Justice," chap. 1.

Moreover, the new social morality must be enforced by an intelligent public opinion, rather than by intolerant customs. Its converts must be won by education, rather than by compulsion. Its authority must be that of reason, rather than that of blind tradition. It should be inspired by the love of one's fellowmen, social esteem, and the hope of better things, rather than by fear of the physical force of a powerful king or the supernatural powers of a mysterious priest.

2. Stages and Institutions of Social Control.—There are three general stages in the evolution of social control, *viz.*, custom, public opinion, and law. The folkways[1] become mores as a given custom, rite, or traditional routine becomes associated with group welfare. As history progresses the unwritten law of custom is succeeded by the written law of the statute book.

Public opinion must first formulate itself before it finally crystallizes into law. Illustrations may be found in the history of the 8-hour day, minimum wage laws and child labor legislation. It must not be thought, however, that law ever entirely supplants custom and public opinion as the sole agency of social control. The activities of individuals are as much influenced by the customs of the age and the public opinion of the group as by the laws of the land.

Each of the many social groups to which an individual belongs has its own standards and agencies of social control. Thus, we speak of the professional ethics of the physician or lawyer as different from those of the business world. Even among the laboring classes themselves, sabotage is condemned by one group and condoned by another. Moreover, the strength as well as the forms of social control differ greatly among the various economic groups.

All social institutions are agencies of social control, each of which influences our industrial life and is influenced by it in turn. Among the most prominent social institutions are the state, the church, the family, the school, and such economic institutions as freedom of contract and private property. To the student of modern industry the political institution of the state and the economic institution of private property are of vital importance. Moreover, the state and private property are closely associated institutions of social control. The significance of the other social institutions is less important to the economist than to the sociologist.

The family was an important institution of social control in the past; but our modern city life and the substitution of the factory system for the domestic system of production have weakened the present economic importance of the family. On the other hand, the school and the press have increased in importance as institutions of social control.

During the medieval period it was the church rather than the state which was the dominant institution of social control. Toward the close

[1] SUMNER, W. G., "Folkways."

of this period, however, the kings wrested their supremacy from the feudal barons and from the temporal power of the papacy. Constitutional democracies gradually achieved the separation of church and state. The church now continues to be an institution of social control merely by its spiritual authority. Modern churchmen, however, like the prophets of ancient Israel, occasionally concern themselves with broad questions of civic righteousness, economic welfare, and social justice.

3. Freedom of Contract and Private Property.—Freedom of contract and private property are among the most important of our economic institutions. They are closely associated with each other, for American courts have declared that the property right involves freedom of contract.

As an agency of social control the state has sought to preserve both freedom of contract and the institution of private property in their current forms. Law represents the crystallized public opinion of past generations. Thus, the medieval courts regarded freedom of contract as the right only of freemen, for the law then recognized the institution of private property in one's fellow creatures.

Status represents a condition fixed by birth, which may be illustrated by slavery and serfdom. Neither the slave nor the serf enjoyed freedom of contract under the custom or law of his day. Indeed, the slave was economic wealth rather than a fellow-man.

Private property is generally regarded as the right to acquire, to hold, to use exclusively, and to bequeath. It is important that we distinguish between the terms "wealth" and "property." Wealth is concrete, and it includes tangible goods, such as a farm, a machine, or a pair of shoes. Property, however, is abstract and refers to a legal right which is commonly embodied in some written certificate of ownership. Among these certificates of ownership of property rights in different kinds of wealth are deeds to land, mortgages on real estate, stocks and bonds. The confusion between wealth itself and the title to wealth is very common.

4. Theories of Private Property.—Many theories have been advanced to explain and to justify the institution of private property. The occupation theory, for illustration, states that the right of private property is based on the prior claim of the one who finds wealth without an individual owner and who appropriates it. The conquest theory is somewhat similar to the occupation theory, except that it is based on force, rather than on discovery and peaceful seizure. To the victor belong the spoils. Thus, the Roman soldier seized not only the wealth of his conquered foes, but also their own persons. In their final analysis, the present titles to land in America are based on either the occupation theory or the conquest theory.

The labor theory, on the other hand, attempts to justify the institution of private property on the ground that an individual is entitled to

acquire and to bequeath the fruits of his own industry. The pioneer, who cleared the wilderness and who braved the dangers and hardships of frontier life, must have had some such inducement to leave the comforts of civilization.

The legal theory of private property, in brief, assumes that this right exists because the law has recognized it. This legal sanction is to be found in the crystallized public opinion of the ages. The social recognition of private property rights in particular forms of wealth during past centuries makes changes in the institution savor of confiscation.

Another theory of private property explains that institution as a natural right. Although the political theorists of the eighteenth century emphasized natural rights, modern thinkers are reacting from such a metaphysical concept. It is true, however, that there are certain inalienable rights, if not natural rights. Thus, the law of the United States seeks to protect the freedom of contract of the worker, but it does not permit him to make contracts which savor of slavery and which sacrifice certain fundamental conditions of personal liberty. Actual personal freedom is regarded as more important than a fictitious freedom of contract. Certain personal rights may be inalienable, but property rights can hardly be so regarded. Neither is private property a natural or a supernatural right.

The most commonly accepted theory of private property today is what may be termed the evolutionary or social expediency theory. During the long ages of social evolution the institution of private property was gradually evolved. Under the conditions of early group life the amount of economic wealth was always small and sometimes collectively owned. But, as the amount of moveable wealth increased, there developed the right of private property in it. Although the research of modern anthropologists has determined that private property in land is very ancient, it developed later than other forms of private property.

The social expediency theory assumes a causal relationship between the development of the institution of private property and the increase of economic wealth. It is assumed that there must be some causal relationship between private property and our present civilization because they have developed together. However, our fathers said the same for the institution of slavery, and some individuals now reason the same way concerning the impossibility of the elimination of war. Because they have existed for ages, they will continue to exist.

Social evolution tends to preserve socially desirable institutions and to eliminate unfavorable ones. Hence, pragmatists justify the institution of private property on the grounds of its long survival. But baneful institutions are not readily eliminated by the process of social evolution. The civilization, as well as the institutions which are a part of it, may be eliminated in the process of social evolution.

The advocates of the social expediency theory point out that man is an acquisitive animal who seeks to gratify this desire. It has been contended that the acquisitive motive stimulated individuals to increased production as a means of acquiring more wealth. But it is also true that most early societies were military and slave societies. Consequently, the common motive to work was the fear of physical punishment rather than the hope of material reward. Those who produced the most could not even acquire their own freedom, and those who produced the least consumed the most.

The social expediency theory contends that for the present, at least, the economic progress of the group is to be advanced by offering to individuals, as an incentive to increased production, the right to acquire, to hold, and to bequeath the wealth which they have produced. The socialist, however, doubts both the necessity and the efficacy of such a motive. Social esteem rather than economic acquisition is regarded as the truly important motive to production. Again, even under our present system there is little causal relationship between production and acquisition. Unearned profits, it is alleged, are relatively great, but earned wages are relatively small.

5. Social Concept of Private Property.—The social origin of the institution of private property must be stressed, for in their final analysis private property rights emanate from society. They can also be modified by society's sober judgment, reversed in the light of new conditions, or exalted by higher ideals of social justice. No matter what theory of private property is held, the institution can be defended only on the broad grounds of social welfare rather than in the narrow path of individual expediency. Although the hold of the vested interests may be strong, any form of private property must go when it becomes inimical to what are regarded as the best interests of society.

Private property rights are relative, modifiable, and social, rather than absolute, unchangeable, and individual concepts. The courts themselves have decided that the power to tax is the power to destroy, and this power may be levied against a property right. On the other hand, it is equally important to note the danger of any sweeping indictment of such an institution as that of private property. Qualifications must be made concerning the different kinds and forms of property rights. A thoughtful man may seek changes in the political state or some modification of private property rights, but not the complete and immediate abolition of these two important institutions.

Our social morality is changing and with it our ideas concerning the institution of private property. Within the memory of some individuals still living today, human slavery existed in this country and was enforced by the laws of the land. It required a bloody Civil War to amend the Constitution and to modify our institution of private property

in this respect. Today the institution is still under fire by various schools of economic abolitionists and revisionists.

The single taxer contends that "the earth is the Lord's and the fulness thereof." Natural resources are the free gift of Nature and not the result of the labor of man. The appropriation of this common heritage for their own use or abuse by powerful but selfish individuals is regarded as little worse than the appropriation of the persons and services of one's fellow-men. Consequently, the single taxer would abolish or seriously modify the institution of private property in land.

The socialist would go one step farther in his war against capitalism, for he objects to private property rights in capital as well as in land. Just as land is a free gift of nature, so capital is the result of labor. Society should own its capital collectively and should reward production rather than mere ownership. The communist goes even farther, for he opposes the institution of private property in general. The anarchist would even destroy the present political state, for it is the great bulwark of the institution of private property.

More conservative reformers approach the problem from a different angle. They do not question an individual's right to acquire various forms and amounts of wealth, but they would limit the right to bequeath enormous fortunes. As the right of inheritance is viewed as the chief source of economic inequality, these critics suggest that each individual be compelled to stand on his own feet rather than be carried on the shoulders of his father. Partly from social policy and partly for the sake of additional revenue, governments have turned to progressive inheritance taxes, as well as to progressive income taxes.

Critics of our economic order have pointed out a perennial conflict between property rights and human rights. When a newly recognized human right conflicts with an old established property right the latter must go. Thus, our forefathers recognized the institution of human slavery, and slave owners possessed the valid, legal right to own and to exploit their fellow-men. The abolition of slavery was confiscatory of the property right of slave owners in favor of the human right of the slaves to their individual liberty. The abolitionists of the North spoke of a higher law than that of the United States, and John Brown was willing to give his life for a cause which was morally right but legally wrong. A modification of the ante-bellum institution of private property was demanded by our rising ideals of social justice.

The selfish maintenance of certain property rights today may conflict with the human rights of various exploited and propertyless groups. Thus, the mandatory minimum wage law may interfere with the right of freedom of contract, and laws for the improvement of working conditions may be inimical to existing property rights. On the other hand,

there is the human right of laborers to live decently and to work in healthy surroundings, as well as for only a reasonable length of time. In contrast to the former attitude that business was the individual venture of the employer, there is growing up a concept of industry as a social responsibility. Large fortunes are also now regarded by some owners as public trusts, rather than as mere individual property rights. The growing functions of government attest the socialization of industry and the increasing limitations on individual rights.

6. Development of Governmental Control of Industry.—During the Middle Ages what is now known as the national state was practically non-existent. Under feudalism the manor was the economic, social, and political unit. What social control of industry existed was local. This local regulation of industry was frequently predatory rather than beneficial. Thus, the robber barons frequently preyed on what little commerce crossed their domains and generally exploited their serfs in favor of the military hierarchy of vassals and men-at-arms.

The medieval guilds represented local organizations for the control of industry. They formulated and enforced the most minute regulations concerning the occupations of their members. Thus, night work was frequently prohibited, weights and measures were regulated, and the adulteration or cheapening of products was forbidden.

With the decline of feudalism, the manorial system, and the guilds, a new program of governmental control, known as the "national system," developed. As strong central governments evolved out of the former feudal confusion, they began to regulate industry and commerce. In England, for illustration, the strong monarchy of the Tudors reflected itself in economic as well as political measures. The Statutes of Apprentices made labor compulsory and imposed on the local justice of the peace the duty of fixing wages. The economic philosophy of this period, known as "mercantilism," reached its greatest development in the seventeenth century. Mercantilism emphasized foreign trade and measured national prosperity in terms of a favorable balance of trade. All sorts of nationalistic regulations were imposed on commerce and industry in order to accomplish this desired result.

7. Rise and Fall of Laissez-faire.—A reaction finally set in against this extreme nationalism and against governmental interference with industry. In 1776 appeared Adam Smith's "Wealth of Nations," a book which had great influence on both economic theories and practices. The "father of economics" made his central thesis that of *laissez-faire* or the let-alone policy. He argued the case for free trade among nations and strove to show that industry would flourish best when freed from the vexatious interference of governments. Adam Smith regarded the functions of government as limited to three fields: the protection of its citizens from foreign invasion, the maintenance of justice at home through

the courts, and the establishment of certain public works and institutions which were uneconomical for individuals themselves to maintain.

The economic philosophy of *laissez-faire* was gradually translated into the actions of statesmen. The British parliaments of the early years of the eighteenth century removed a number of the older restrictions on trade and industry. Thus, the Statute of Apprentices, which permitted wage fixing, and the Corn Laws, which prevented the free importation of grain, were finally repealed.

The theory of *laissez-faire* was seized by the rising manufacturing class, as it opposed governmental interference with working conditions. Indeed, the theory is sometimes called that of the Manchester School, because of its advocacy by the Manchester manufacturers. Under this economic philosophy of *laissez-faire* the Industrial Revolution developed.

The Industrial Revolution, however, brought about new conditions which made untenable the former theory of *laissez-faire*, or let alone, in industry. Under the dominance of a philosophy of individualism little children and mothers toiled in factories and mines under unthinkable conditions. England was confronted with a condition as well as with a theory. In spite of the hold of *laissez-faire*, labor laws and other humanitarian legislation gradually came into existence.

Because of the bargaining disadvantages of the individual workers, they sought to organize into trade unions and to bargain collectively as to wages, hours of work, and general conditions of employment. But collective bargaining was regarded by *laissez-faire* economists as a futile attempt to interfere with the natural forces which determined wages, or as a socially undesirable effort to substitute monopoly for competition. Collective bargaining was regarded by both the common and statute law as conspiracy. But as the *laissez-faire* attitude began to wane, governments gradually removed many of the obstacles which had been placed in the path of early labor organizations. The recognition and regulation of collective bargaining succeeded the former governmental attitude of open hostility.

The last century witnessed a tremendous growth of governmental functions and of collective economic effort. During the World War, increased cooperation became imperative, and governments deliberately shaped the industrial activities of their peoples. Consciously or unconsciously, the former theory of *laissez-faire* has become a matter of mere historical interest. Although numerous individuals are pleading for "less government in business," a return to the *laissez-faire* of Adam Smith is unthinkable. Whether the future will witness a further development of the governmental regulation of industry, or a reaction in the other direction, remains to be seen. To the student of economic history, however, it is interesting to see how the pendulum has swung from the national system toward *laissez-faire*, and then from *laissez-faire* back again toward governmental regulation.

8. Laissez-faire and Liberty.—One of the chief arguments used in support of *laissez-faire* was that it was essential to individual liberty. Freedom was incorrectly interpreted as the absence of governmental interference with the actions of people. Nothing could be farther from the truth, for government exists to protect the liberty of individuals rather than to restrict it. Indeed, the liberty of all individuals is only secure when government is strong enough to punish lawlessness and license. The confusion of thought which made liberty identical with *laissez-faire* can be understood only by remembering the despotic and arbitrary character of the governments of the Stuarts and Bourbons. Under such a regime the chief threat to individual freedom came from an autocratic, central government.

Although it may have been true before the French Revolution that individual liberty could be secured only by a curtailment of the powers of government, which then resided in the person of a despotic king, it does not follow that freedom and government are opposing concepts. *Laissez-faire* and freedom are not identical. The best government is not necessarily that which governs the least. Even the townsmen and merchants of the Middle Ages knew that the strong monarchy of the sovereign king was their best protection against the lawlessness of the feudal barons. In a modern democracy liberty is to be found in a strong and capable representative government, rather than in the playing off of one tyrant against another.

Law and liberty are as closely related as government and freedom. The liberty of all individuals can be secured only by a government which is strong enough to protect the weak against the strong, the unprivileged against the privileged, and the social members of society against the unsocial. Although the extension of paternalism may point toward socialism, it is equally true that the logical extreme of a philosophy of *laissez-faire* leads toward anarchism, which is the complete absence of government as now expressed in the political state.

9. New Economic Aspects of Government.—Numerous attempt have been made to classify the new functions of government. Some writers differentiate between the primary functions of the state, such as protection from foreign invasion and domestic disorder, and the secondary functions of the state, such as the regulation of industry.

These latter functions may be subdivided according to those occupations which are primarily predatory, those which are characterized by legitimate and beneficial competition, and those which are natural monopolies. Predatory occupations should be suppressed, and the place of competition should be regulated in the second group of industries. Those industries in which competition is self-destructive should be recognized as natural monopolies, to be placed under governmental operation or strict governmental regulation.

The general problem of the social control of industry may be approached from still a different angle. Governmental regulation of industry may be classified according to whether it is exerted in the interests of consumers, workers, investors, or the general public.

Governmental interference for the protection of consumers may be illustrated by pure food laws. The state has also been forced to regulate the railroads in order to avoid discriminatory rates.

In the second place, the interests of the workers have been profoundly affected by the invention of power machinery and the development of the factory system. Illustrations of governmental regulation of conditions of labor are factory laws in the interests of safety and health, social insurance, legislation limiting the hours of work, minimum wage laws for women, etc. It is with this general type of governmental interference with industry that this text is concerned.

The state has sought to protect the investor, as well as the consumer and the worker. The corporate form of business organization has divorced ownership from control and facilitated the possibility of financial manipulation. Hence, many states have passed "blue sky" laws to prevent the development of fraudulent concerns.

Finally, there are numerous miscellaneous regulations of industry which governments have initiated for the protection of the general public. The conservation of forests and the restriction of immigration may be classified under this type of government regulation.

Old and new powers of government have been outlined as follows by two students of labor problems.[1] In the first place there is the power of the state to preserve peace and to execute the laws. This power, of course, represents the primary function of government.

In the second place may be mentioned the taxing power of governments, under which right the property of individuals may be taken without compensation. This taxing power was used primarily for purposes of revenue, but it has also been used for the purposes of regulation. The fact that "the power to tax is the power to destroy" demonstrates how effectively the taxation power may be used to shape public policy. Thus, the Federal government successfully taxed out of existence state bank notes during the Civil War. It also made a recent but unsuccessful attempt to tax prohibitively the products of certain types of child labor.

In the third place may be mentioned the right of eminent domain, by the exercise of which power the government may confiscate private property for public purposes. Unlike taxation, however, property seized under the power of eminent domain must be paid for.

In the fourth place is the government's power and duty of guardianship. In a sense the state is the trustee and guardian of children and other groups not fully able to care for themselves.

[1] COMMONS, J. R., and ANDREWS, J. B., "Principles of Labor Legislation," chap. 1.

In the last place may be mentioned the state's exercise of proprietorship. Governments themselves are now the employers of thousands of workers, for whom they fix wages, hours, and working conditions. Although there are limits to what the state can do and should do for its own employees and for those at work on government contracts, governments may be regarded as setting a standard for working conditions under private enterprises.

10. Socialization of Government.—Many social functions which were formerly done on individual initiative and by private organizations are now being performed by public bodies or by state departments. In some cases the regulation of industry has been succeeded by its socialization. But even where collective ownership and operation of industry have made little headway, there is developing a new ideal of government, which may be termed that of service.

It would appear that there has taken place a socialization of government as well as a mere increase of its powers. The expansion of governmental functions from the primary one of protecting its citizens to the secondary one of the regulation of industry has been briefly outlined. But just as the political functions of government have broadened into the economic, so they have also expanded into new and broader social functions. In addition to the social regulation of industry, governments are now seeking to perform new services for its citizens or old services in a better manner.

The increasing congestion of population and the growing interdependence of society have increased the number of things which can best be done collectively. Although often done by individual enterprise under governmental supervision, they may also be done collectively. Relatively old functions of government are the building of improved highways and the supplying of water or some other essential of life. Municipal subways and improved transportation facilities are now regarded as legitimate governmental functions.

Certain new functions of government, which are strongly social in character, are also coming into increased prominence. Among them are those of public health and recreation. Education has long been regarded as an important public function. Magnificient public high schools, the people's colleges, may now be found in almost every large town in the United States. Public health, however, would seem to be as important as public education and as worthy of public funds. A poor child is educated at public expense, for the entire group benefits from an educated citizenry and suffers from ignorance. Is not the same argument sound for an extensive program of public health? It would seem as if the state should inquire into the physical fitness, as well as the literacy, of its citizens, and that it should provide adequate medical, surgical, and dental facilities for those who are too poor to provide them for themselves.

Although a concept of public hospitals similar to that of public schools is fairly new, for years there have been numerous free clinics, especially for school children. The government is also making a heroic attempt to reduce infant mortality and the hazards of maternity. A public sanitation and quarantine program is also fairly well advanced. State and municipal departments of public health are constantly extending their functions, powers, and opportunities for public service.

Recreation is closely allied to health. It is as important a function of government as education. Hence, modern cities have established public playgrounds and extensive parks and boulevards. Free libraries, public art galleries, and museums of science have also been established by progressive communities. Modern educators are stressing adult education and informal agencies of continued education. Community centers and free concerts have been a great force in our recent civic and educational progress.

Many of these new social functions and community enterprises were at first established by private philanthropy. They later came to be regarded as public trusts and as legitimate functions of government. This was the history of public education, which development now seems being repeated by the public health and recreation movements.

Municipal opera houses and community theaters may be as common in the America of tomorrow as are municipal swimming pools and community playgrounds today. Public hospitals may come to be regarded in the same light as public schools are now. A new ideal of social service does seem to be coloring our former concept of government.

These new social functions of government are of peculiar interest to the student of labor problems. The public health and recreation movements have meant as much to the workers as the public education movement. The increased leisure of the workers has been directed into wholesome and beneficial channels. Moreover, working efficiency itself has been increased, as well as the ability to enjoy the better things of life.

In addition to these enlarged social functions of the state there are some new governmental services of even more direct interest to the workers. Thus, public employment bureaus have been established by progressive states and cities in order to assist in finding employment for the unemployed. Again, boards of mediation and conciliation have been established for the reduction of industrial conflicts. Some progressive communities have built municipal tenements, which are run at cost, to furnish improved housing facilities to the workers.

11. Decentralization of Government.—The United States is a Federal government and Congress possesses only those powers which are specifically given to it in the Constitution. All residual rights and powers are vested in the several states.

The small but important provision in the Constitution which gives to Congress the power to regulate interstate commerce has been the legal rock on which has developed the Federal control of the railroads and of the trusts. The progress of social and humanitarian legislation in the United States has been retarded by the fact that these matters fall largely within the province of the individual states.

Labor legislation is essentially state legislation. Hence, uniformity is wellnigh impossible. Again, it is possible for strict regulation within one state to cause an industry to seek refuge across its boundary. This mere threat has sometimes been sufficient to defeat within a given state the passage of desirable labor legislation. Federal legislation is the only means of securing uniformity, and in many cases such Federal legislation would require a Constitutional amendment. This is the case with child labor laws, minimum wage laws for women, a universal 8-hour day and the regulation of dangerous trades, only a few of which problems fall within the province of the interstate commerce powers of Congress.

The Federal nature of our government, however, has its advantages as well as its disadvantages. Although it may be impossible to pass a certain labor law within Congress, public opinion in one or more of the several states may sanction it. Hence, the legislation of progressive states may be in advance of that of the entire country. The Federal nature of our government makes it possible to experiment with various types of labor legislation and with different reform projects. Thus, Kansas, Wisconsin, California, and several other states have been experimental laboratories, the results of which have been watched with great interest by the entire country.

Although the United States is a Federal government rather than a centralized one, there does seem to be taking place an increased centralization of power. Thus, the individual states have been increasing their authority over health and education, which were formerly regarded as local matters. Again, the Federal government has been increasing its powers at the expense of the states. This tendency may be illustrated by the recently growing practice of extending Federal subsidies to states which cooperate in building roads or raising standards of vocational education. The socialization of government within the United States has been accompanied by some centralization of power. The location of these enlarged functions of government is as interesting as the mere increase of governmental powers.

12. Labor Problems and the Federal Constitution.—The Constitution of the United States was formulated in the period of *lassiez-faire* and in the pioneer atmosphere of individualism. Colonial America was agricultural and not industrial. The Declaration of Independence, the product of a revolutionary era, affirmed our belief in certain natural or

inalienable rights of life, liberty, and the pursuit of happiness. The Constitution, drawn up in a more conservative decade, stressed the right of property as well as the rights of life and liberty.

Equality before the law of all free men was a democratic ideal of the eighteenth century, but equality of opportunity and equality of economic conditions were not as yet envisioned. The democracy of the Fathers was a political rather than an economic idealization. These factors determined the nature of the Constitution of the United States and the character of the early amendments to it. Civil and political rights were stressed, and citizens were granted protection against the encroachments of an arbitrary central government.

The fact that the United States is a constitutional democracy with a written constitution is very important to the student of labor problems. Although possessing many advantages over a democracy without a written constitution, a constitution presents a serious problem to such a dynamic society as our own. Although economic conditions have changed very rapidly during the past century, it has been found very difficult to amend the Constitution in many important respects. Consequently, legislation which attempts to crystallize changes in public opinion and to meet new problems or changing aspects of old ones must meet continually the test of constitutionality.

This difficulty has been peculiarly acute for labor legislation, for the industrialization of the United States and the development of labor problems took place several generations after the adoption of the Federal Constitution. The problem of the constitutionality of labor legislation is a difficulty which is not faced by a country such as Great Britain, which does not have a written constitution, and whose Parliament can pass whatever legislation it regards as most suitable for the new conditions. Such legislation can easily be repealed or amended in the light of practical experience, but it cannot be declared unconstitutional.

On the other hand, there are certain advantages of a written constitution to the individual citizen and worker. Chief Justice Taft has stated the case for constitutional government as follows.

> The Constitution was intended, its very purpose was, to prevent experiment with the fundamental rights of the individual. We said through Mr. Justice Brewer in *Muller vs. Oregon* that "it is the peculiar value of a written constitution that it places in unchanging form limitations upon legislative action, and thus gives a permanence and stability to popular government which would otherwise be lacking."[1]

13. Individual Freedom and the Constitutional Guarantees.—The early amendments to the Constitution, known as the "Bill of Rights,"

[1] *Truax vs. Corrigan*, 257 U. S. 312, 1921.

were designed to preserve the individual liberties of our citizens against the encroachment of the Federal government. Thus, the Fifth Amendment provides that no citizen shall be deprived of life, liberty, or property without due process of law by an act of Congress. The Fourteenth Amendment, which was designed to give the Negro the legal protection of the rights of citizenship, provides that no state shall pass a law depriving its citizens of life, liberty, and property without due process of law. Similar guarantees of individual liberty are contained in the constitutions of most individual states.

As the right of property has been held by the courts to include the right of freedom of contract, it is difficult for either the national government or any state to pass a law which abridges the freedom of contract of worker or employer. It has frequently been held by the courts that various labor laws interfere with the legal right of freedom of contract of all citizens. Hence, these so-called "constitutional protections" have often meant that the actual economic freedom of the worker has been sacrificed to his theoretical legal rights.

The situation is further involved by another constitutional proviso that "no state shall . . . pass any . . . law impairing the obligation of contracts."[1] This constitutional clause was inserted to prevent a repudiation of debts by the states. The practical result of this provision has been to make difficult the regulation of public utilities and corporations in the interests of society as a whole. It has also been an occasional obstacle in the path of labor legislation.

The constitutional guarantees of life, liberty, and property, the "due process of law" phrase and other clauses in the Constitution have expressed our belief in and our assurance of an equality before the law. Indeed, equality before the law is far older than the Federal Constitution of the United States. It is regarded as the legal birthright of all citizens under common, statute, and constitutional law.

Legal equality, however, must be distinguished from biological equality on the one hand and economic equality on the other. Again, equality before the law must be differentiated from equality in conditions of life. Thus, both employer and employee may possess the common legal right of equality before the law. Nevertheless, economic conditions may be such that their relative bargaining powers are vastly different.

14. Legal Equality and Economic Inequality.—Equality before the law does not necessarily insure economic liberty, for freedom can be enjoyed only when one possesses the same powers, privileges, and opportunities enjoyed by others. Political equality is not the same as economic equality, and equality before the law is not identical with equality of opportunity in the business of getting a living or acquiring wealth. Hence, public sentiment may express itself in favor of minimum wage

[1] Article I, sec. 10.

laws for women or other groups which possess so little bargaining power that they are in danger of being exploited by a more powerful group.

Opponents of such legislation might regard it as a violation of the legal right of freedom of contract or as class legislation. All legislation, however, is discriminatory, and the cry of class legislation can be brought against any new law. But a law cannot properly be regarded as class legislation unless it is unreasonable in its provisions, that is, unless it is not designed to serve any useful object or unless its social purpose is not commensurate with the injury inflicted. Thus, a law forbidding the wearing of fur coats would be an unreasonable discrimination against individuals owning these luxuries, but the forbidding of smoking in street cars is a reasonable discrimination against smokers in favor of the general interests of the riding public. The latter ordinance, unlike the former, serves a social purpose. Hence, it cannot be regarded as an unreasonable discrimination. It does not violate equality before the law.

Many pieces of labor legislation have been improperly called violations of legal equality, because they have taken cognizance of economic inequalities and have legislated differently for different groups. But the principle of equity has always been invoked to protect the weak bargainer to the wage contract. This has been true even where its use sacrificed the worker's legal freedom to his economic security. An abuse of the right of property or a misuse of freedom of contract might lead to exploitation.

The principle of equality before the law cannot mean that all persons must be treated similarly under all conditions, but only that equal conditions receive similar treatment.

> Such legislation can be held to deny equal protection of the laws only where the facts show that both parties are actually equal. But where the parties are unequal (and a public purpose is shown), then the state which refuses to redress the inequality is actually denying to the weaker party the equal protection of the laws.[1]

Labor legislation has passed from the old dispensation which treated of the legal relationship between master and servant to the new dispensation which treats of the rights and duties of employer and employee. Although the former master and servant relationship pretended to treat the two as equals before the law, it retained important characteristics of an earlier servile state, in which the laborer's body belonged to his master or creditor.

In order to raise the legal status of the worker from that of servant to that of employee, the law has found it necessary to recognize important

[1] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 29, 1927.

differences in the economic conditions of employer and employee. It has sought to provide a real rather than a fictitious equality before the law by coming to the rescue of the group in the inferior bargaining position. Otherwise, the natural or economic inequalities between employer and employee under the modern conditions of capitalistic production would reduce the employee to a servile state.

15. Labor Legislation and the Police Power of the State.—The police power of the state has been invoked to defend the passage of labor laws and other social legislation which seems to encroach on individual liberty, property, and freedom of contract. It may be regarded as a residual right of the state to pass legislation or to enforce executive mandates when the social interest of the group requires that the constitutional guarantees of either the Federal or state constitution be sacrificed to the common safety, health, or welfare of the group.

The police power has been defined as "that power of the courts granted to them by the American constitution, whereby they must shape property and contract to existing social conditions by settling the question of how far social regulations may without compensation impose burdens on property."[1] Again, "The police power is an indefinite authorization for the American state to abridge liberty or property without consent or compensation in addition to its more general powers."[2]

Under the police power of the state an individual suffering from a contagious disease may be deprived of his liberty in the interests of the health of his fellow citizens by an enforced quarantine. Again, cattle suffering from the hoof and mouth disease may be confiscated and killed, which represents the taking of property without compensation, in order to protect the property of other members of the group. It is apparent from such actions that the loss to the individual is less than the gain to society.

The chief use of the police power of the state, however, is in connection with labor legislation, a large portion of which looks to it for its authorization. Thus, the police power of the state has been used to justify the passage of child labor legislation, laws for the restriction of hours of work and conditions of employment of women, and safety legislation for all employees.

The effect of the police power is to impose a burden or to exercise a restraint on some individuals for the benefit of other individuals. But the final defence of such legislation rests on whether or not a public danger is threatened or a public benefit is gained. Otherwise, such legislation represents special privilege or class discrimination. The sovereign power of government must not be used to further private purposes, whether

[1] ELY, R. T., "Property and Contract," vol. 1, p. 220.

[2] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 13, 1927.

they be those of certain groups of manufacturers or those of trade unionists, the special interest of capital or of labor.

The states accomplish under the police power what the Federal government accomplishes under its taxing powers or under its interstate commerce powers. But the concept of the police power may be used in a broader sense

> . . . to imply all the powers of government, whether of police, taxation or interstate commerce, in so far as they are used to justify that indefinite expansion of power to abridge liberty or property without compensation for some newly recognized public purpose . . . In this way without formal amendment the American constitutions are unconsciously amended by the police power through the change of public opinion regarding the rights and liberties of labor.[1]

16. Judicial Interpretation of the Police Power.—The Supreme Court of the United States has interpreted the police power of the state as follows:

> We hold that the police power of a state embraces regulations designed to promote the public convenience or the general prosperity as well as regulations designed to promote the public health, the public morals or the public safety.[2]

Even longer ago it had declared that

> All property in this country is held under implied obligation that the owner's use of it shall not be injurious to the community.

It is the business of legislation "to determine primarily what means are appropriate or needful for the protection of the public morals, the public health, or the public safety," but there are, of necessity, "limits beyond which legislation may not rightfully go," and that it becomes uncertain when it bears "no real or substitute relation to these objects, or is a palpable invasion of rights secured by federal law."[3]

As early as 1894 the Supreme Court had declared that . . .

> While it may be conceded that, generally speaking, among the inalienable rights of a citizen is that of liberty of contract, yet such liberty is not absolute and universal. It is within the undoubted power of government to restrain some individuals from all contracts as well as all individuals from some contracts.[4]

The police power of the state is not only a rather indefinite concept, but it is also a constantly growing one. It has been expanded constantly to meet the new needs of our modern industrial life. Although such a law was declared to be unconstitutional by the Supreme Court of Illinois

[1] COMMONS, J. R., and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 17, 1927.

[2] *C. B. & Q. Railway vs. Drainage Commissioners*, 200 U. S. 561, 1905.

[3] *Mugler vs. Kansas*, 123 U. S. 623, 1887.

[4] *Frisbie vs. U. S.*, 157 U. S. 160, 1894.

in 1895, at the present time the courts are upholding laws which forbid women from working more than 8 hours a day. This change in judicial attitude began to manifest itself about the beginning of the present century.

In 1898 the Utah 8-hour law for miners was held to be constitutional by the Supreme Court of the United States in the following broad, social declaration.

> The fact that both parties are of full age and competent to contract does not necessarily deprive the state of the power to interfere, where the parties do not stand upon an equality or where the public health demands that one party to the contract shall be protected against himself. The state still retains an interest in his welfare, however, reckless he may be. The whole is no greater than the sum of its parts, and where the individual health, safety or welfare is neglected, the state must suffer.[1]

It will be noted that this decision involved a very broad extension of the police power of the state. Not only can the government interfere because of existing inequalities in bargaining powers of the two parties to the contract, but also it can interfere to protect a reckless or ignorant individual against his own actions. From an individual point of view it would seem that a citizen does have certain inalienable rights, such as health and safety, which the state will not permit even himself to barter away. From a social point of view it would seem that individuals' health and safety are regarded as essential to group welfare. Such paternalism did not exist in the *laissez-faire* philosophy of a century ago.

There have been numerous recent court decisions which are in conflict with such a broad social attitude. Thus, in 1905, the Supreme Court held as unconstitutional a New York law limiting the hours of bakers.[2] The court regarded excessive hours of labor in this industry as less detrimental to public welfare than in the case of the miners. Hence, it did not wish to weaken the constitutional guarantee of freedom of contract by a further extension of the police power.

A mandatory minimum wage law for women, passed for the District of Columbia, has been declared still more recently[3] by the Supreme Court of the United States to be an unconstitutional interference with this constitutional guarantee of freedom of contract. Although the court admitted that freedom was not absolute it held that it should be regarded as the general rule. Although subject to restraint, such restraint is to be regarded as exceptional. Any legislative abridgment of freedom of contract must be justified by exceptional circumstances.

[1] *Holden vs. Hardy*, 169 U. S. 366, 1898.
[2] *Lochner vs. New York*, 198 U. S. 45, 1905.
[3] *Adkins vs. Children's Hospital*, 261 U. S. 525, 1923.

The very extreme of reaction was represented by a Supreme Court decision of 1908 which went so far as to declare that there should be no interference with the right to accept or to refuse employment.

> In all such particulars the employer and the employee have equality of right and any legislation that disturbs that equality is an arbitrary interference with the liberty of contract which no government can justify in a free land.[1]

17. Administrative Bodies of Government.—The fathers of the Constitution divided the functions of government into the legislative, the judicial, and the executive, each of which was to have its own independent sphere. But the complexity of modern industrial life and the development of new functions of government, especially the regulation of industry, have created a new and overlapping department of government known as the "administrative branch" of the service. Although commonly organized as bureaus of the executive department of the state, administrative departments have come to be as independent as they are important. Again, their functions often transcend those of the executive, for they also involve, in part, legislative and judicial functions.

The increased control of government over business has resulted in a corresponding increase in administrative bodies. Illustrations of important administrative bodies of the Federal government are the Interstate Commerce Commission, the Federal Trade Commission, the Tariff Commission, and the Federal Reserve Board. Each of these bodies employs a staff of especially trained experts. In addition there are various departments of the executive branch of the Federal government, such as the Department of Labor and the Department of Commerce, each of which has numerous bureaus.

A similar situation exists in the various state governments. Some departments are under the direct control of the state executive, but there are also some quasi-independent commissions, such as the Public Service Commission. There is usually a secretary of labor, who heads a department directly under the control of the governor, and also various permanent or temporary commissions, which perform important administrative functions in connection with labor disputes, labor conditions, and labor statistics.

The past century has seen the development of labor legislation and an extension of the police power of the state. The law has sought to remove some causes of industrial unrest and to prevent various forms of economic exploitation. But legislation alone and the courts unaided are insufficient to give the necessary relief. Administrative bodies, composed of trained experts in particular types of labor problems, are necessary to supplement the work of legislation and the tasks of the courts.

Expert advice is necessary in the framing of labor laws and other pieces of legislation. Many well-intended labor laws have been found to

[1] *Adair vs. U. S.*, 208 U. S. 161, 1908.

be futile because of their inadequate or imperfect phraseology. Again, many good labor laws have been unenforced because of the absence of an efficient corps of factory inspectors.

If adequate labor legislation is to be drawn up and properly enforced, special administrative bodies are necessary. If it is to be fairly interpreted by the courts, the full facts must be discovered by a disinterested and capable group of state officers. The specialized expert must assist the court as well as the legislator and the executive.

The legal knowledge of the lawyer is not sufficient, for it must be supplemented by the special training of the economist, the accountant, and the industrial engineer. If government is to regulate industry wisely and not arbitrarily, it must have competent fact-finding bureaus and commissions constantly at work to secure the necessary information for the formulation of its decisions. Hence, labor bureaus compile statistics as to wages, working conditions, and other important matters.

Some administrative bodies, such as the Federal Bureau of Labor Statistics, are purely fact-finding organizations. Others exercise purely executive functions, such as the enforcement of existing laws of sanitation and safety in factories and mines. Other administrative bodies exercise certain limited, judicial functions, such as the attempt to settle labor disputes by securing the conciliation of labor and capital. Although state legislation has standardized the damages to be paid to injured employees, state Workmen's Compensation Boards must frequently adjudicate as well as administer.

18. Legal Aid Societies and Industrial Courts.—Legislation and administration are sometimes insufficient to remedy many of the social disadvantages of economic inequality. The worker is often too poor or too ignorant to avail himself of the full protection of the law. In spite of adequate legislation, workers' wages have sometimes been unjustly attached or illegally withheld from them. In spite of the fact that involuntary servitude is unconstitutional, chronic indebtedness has been effectively used to enforce labor. Peonage has existed in the agricultural South and the *padrone* system in the commercial and industrial cities of the North. The situation may also be illustrated by the unfortunate position of an injured worker in the days of employer liability laws. Even though the law may have been on the side of the injured worker, it costs money to hire a lawyer and to await the slow and tortuous procedure of the courts.

In order to substitute social justice for public charity, legal aid societies have been established. Their purpose has been defined as follows:

> . . . to render legal aid and assistance gratuitously to all who may appear worthy thereof, and who from poverty are unable to procure it.[1]

[1] Legal Aid Society of Philadelphia, *Constitution*, art. I, sec. 2.

Legal aid societies were first established by individual philanthropists and as departments of organized charity, but their work later came to be recognized as a legitimate function of government. One of the first important legal aid societies was that of New York, but the movement spread to other cities and states.

In Europe a similar movement developed, but it took the form of industrial courts, rather than of legal aid societies. An industrial court in this sense of the term is a poor man's court for the adjudication of the individual problems of the worker. A resort is made to special courts with special judges, rather than to the regular courts on the initiative of special lawyers. The purpose of these industrial courts is

> . . . to settle by conciliation whenever possible and by legal judgment when conciliation fails, but in any event cheaply, quickly, and by means of a court composed in part or in whole of elected representatives of the two classes, all individual legal cases which arise from the relations of employer and employed.[1]

Industrial courts of this sort first developed in France, but the movement spread rapidly to Germany and Switzerland. Although the organization differs in these three countries, the essential elements are the same, namely, the informality, the rapidity, and the cheapness of the judicial process. No such institution exists in the English-speaking countries, although there are many courts of small claims for general litigation. There are also, of course, many types of industrial councils for collective bargaining and industrial courts for the settlement and prevention of general industrial disputes.

19. Private Agencies for Social Welfare.—In addition to legal aid societies there are numerous other private or quasi-private organizations which are of importance to all students of the social problems of industry. Their aim is social welfare rather than the advancement of some vested interest. Hence, their work may be regarded as educational rather than as propagandist. Although sometimes concerned with specific projects, these represent aims which are generally non-controversial, such as the improvement of public health, the reduction of dependency, or higher standards of living and working conditions. No attempt will be made to list all such agencies, for a few will be sufficient for purposes of illustration.

In the first place must be mentioned societies for the organization of charity. These organizations seek to correlate the work of all relief societies within a given city rather than to dispense charity. Their aim is a scientific study of the causes of dependency and their reduction or elimination. Hence, the keeping of accurate records is imperative. The great objective of organized charity is the restoration of the economic

[1] U. S. Bureau of Labor, *Bulletin* 98, p. 273, January, 1912.

independence of the applicant for relief and his family. Social workers investigate the causes of dependency and put the dependent in touch with possible sources of relief. If the applicant is able to work, an effort is made to secure a job which he can hold. If not, an effort is made to restore him to health and working efficiency. It may be that medical or surgical care is needed, in which case a contact is established with the social-service department of a hospital. It may be that legal relief is needed, in which case the legal aid society functions. Supervision of the dependent family is continued by the friendly visitor until economic independence is restored.

In addition to societies for the organization of charity, there are other private organizations with specific social objectives. Illustrations are housing societies, which seek to enforce the health laws of the state and the sanitation ordinances of the city. They have performed important work in the fight against the sweatshop and unsanitary working conditions, as well as against miserable living conditions. There are also numerous private medical and dental clinics and associations for the reduction of infant mortality and the hazards of maternity.

The Consumers' League is another important private agency which performs valuable social work. It investigates working conditions in various places of employment and publishes a list of firms which maintain good working conditions.

The American Association for Labor Legislation is not only a scientific fact-finding organization, but also an important educational institution. It draws up model, standardized bills on important labor questions and seeks their passage in various states. Its quarterly publications should be followed by each student of labor problems. The brief summary of current, labor legislation published therein is of prime importance.

20. Summary.—Social control is the influence of the group over the thoughts and actions of its individual members. The interdependence and impersonality of modern industrialism have increased the necessity for social control. Social progress also involves the transition from irrational to rational forms of social control and from autocratic to democratic agencies of social control.

Three stages in social control are custom, public opinion, and the law. All social institutions are agencies of social control, but those of prime importance to the student of labor problems are the state and the institution of private property. The political state is the chief bulwark of the institution of private property.

Freedom of contract implies economic liberty, as contrasted with an inherited status fixed by birth. The workers have evolved from a condition of status to one of free contract, and from a master and servant relationship to that of employer and employee. Private property is the intangible legal right to acquire and possess, to use and abuse, to inherit

and bequeath various kinds of economic wealth. The right of property has been held by the courts to include that of freedom of contract.

Many theories have been advanced to explain and justify the institution of private property, one of the most important of which is the social expediency theory. This theory of private property assumes a causal relationship between economic progress and private property, and between individual acquisition and production. In any event, property rights are relative rather than absolute, and modifiable rather than fixed in character. Private property is social in origin and must not be inimical to the current ideals of group welfare.

Laissez-faire proposed the reduction of the governmental regulations of industry to a minimum. Its early enthusiasts falsely regarded individual liberty as identical with the reduction of the functions of government. Society gradually passed from a strict nationalism to *laissez-faire* and then away from *laissez-faire*. Modern industrialism has necessitated an increase in the functions of government and a greater regulation of industry.

The functions of government may be classified as the primary one of protecting its citizens from foreign invasion and local disorder and the secondary one of regulating industry. The economic functions of government may be classified as those exercised in the interests of consumers, workers, investors, and the general public. There are now developing new social functions of government, new collective activities, and a new ideal of service.

The United States is a Federal government with a written constitution. The central government possesses only certain specified powers. Labor legislation falls largely within the province of the individual states. Hence, uniformity is wellnigh impossible, although a certain amount of experimentation may be done by progressive states.

The Federal Constitution guarantees the life, liberty, and property of its citizens against the aggressions of Congress or the individual states. Each new labor law has been forced to meet this test of constitutionality. Indeed, many of them have been regarded as unconstitutional violations of freedom of contract. The police power of the state is the right to pass laws which encroach on the constitutional guarantees, when the common safety, health, and welfare of the group necessitate the sacrifice of individual liberty and property.

Some labor legislation has been regarded as class legislation because it takes note of economic differences. But it cannot be regarded as class discrimination unless it is unreasonable and serves no social purpose. Equality before the law is vastly different from economic equality. Equality before the law involves a recognition of economic differences and of inferior bargaining power.

The removal of economic maladjustments requires not only labor legislation, but also the existence of various administrative boards of experts for the compilation of statistics, the drafting and enforcing of labor laws, and the adjustment of industrial disputes. As governmental regulation of industry has developed, fact finding in labor problems has become increasingly important. Administration as well as legislation is imperative, and the work of the regular inspector or the special investigator is as necessary as that of the courts.

There are many private organizations or semi-public agencies which are of special interest to the student of labor problems. Among them are the Consumers' League and the American Association for Labor Legislation. To students of the social aspects of industry the organized charity societies and legal aid societies represent important new developments. The work of many such private organizations is important in itself. Again, many of them represent newly developing aspects of government. Many of the present social and economic functions of government were performed by private agencies before they were taken over as public duties.

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Questions for Discussion

1. What do you understand by social control?
2. Indicate some stages and agencies of social control.
3. How has the Industrial Revolution increased the necessity for social control?
4. Distinguish between status and freedom of contract.
5. What do you understand by private property?
6. Do you accept the social concept of private property? Why or why not?
7. What do you understand by *laissez-faire* and the national system?
8. Outline some of the increasing functions of government.
9. How does the Federal nature of our government affect labor legislation?
10. How does the constitutional character of our government affect it?
11. Enumerate some of the chief constitutional guarantees.
12. How do they affect labor legislation?
13. What do you understand by class discrimination and by equality before the law?
14. What do you understand by the police power of the state?
15. Distinguish among the legislative, the executive, and the judicial branches of government. Is this distinction easy to maintain? Illustrate from labor problems.
16. Indicate certain administrative bodies of government of interest to students of labor problems.

Topics for Investigation

1. Carver's concept of a scientific morality.
2. Modern and primitive agencies of social control.
3. Theories of private property.
4. Our changing concept of property.
5. Judicial interpretation of the police power.
6. Legal aid societies and industrial courts.
7. The American Association for Labor Legislation.
8. Consumers' leagues.

CHAPTER III

THE BACKGROUND IN POPULATION

IMMIGRATION AND THE SUPPLY OF LABOR

1. Increase and Distribution of the Population of the United States.—The phenomenal increase in the population of the United States has been accomplished by both immigration and a natural surplus of births over deaths in the native population. Although territorial expansion has accompanied this increase of population, there is a serious problem of congestion in the older industrial sections of our country.

When independence was achieved the total population of the original thirteen states numbered a scant 3,000,000. At the present time the population of continental United States is well over 110,000,000. It would seem that our population has doubled within every generation of 25 or 30 years. The census figures are as follows.

POPULATION INCREASES IN THE UNITED STATES

1790	3,929,214	1860	31,443,321
1800	5,308,483	1870	38,558,371
1810	7,239,881	1880	50,155,783
1820	9,638,453	1890	62,947,714
1830	12,866,020	1900	75,994,575
1840	17,069,453	1910	91,972,266
1850	23,191,876	1920	105,710,620
		1928	120,013,000[1]

[1] The Federal Census Bureau's estimate, July 1, 1928.

As compared with Europe and Asia, America is still sparsely populated. Before the World War, for illustration, Germany was ten times as densely populated as the United States. The average density of population for this country, as a whole, is slightly over 30 people per square mile. The center of population has moved gradually westward through Maryland, West Virginia, and Indiana.

The average density of population, however, is as misleading as the average length of life. Portions of our great West are very sparsely settled, for the immigrant tide tends to congest in our eastern and central industrial states. At the present time a trifle over half our entire population live in cities of 2,500 or more. Indeed, more than 5 per cent of all the people of the United States reside within greater New York City.

2. Composition of Our Population.—About nine-tenths of the population of the United States are Caucasions. The census for 1920 showed

over 10,000,000 Negroes in this country, most of whom live south of the Mason and Dixon line. Of recent years, however, there has been a decided tendency of the Negro to migrate to the industrial cities of the North. There are about 300,000 Indians, most of whom reside on governmental reservations. In addition, there are over 150,000 Mongolians located chiefly along the western coast. Within this group the number of Chinese is about 60,000 and the number of Japanese slightly over 100,000.

The 1920 census revealed within continental United States a total white population of almost 95,000,000 of whom over 81,000,000, or 86 per cent, were native born. Foreign-born whites numbered almost 14,000,000 or 14 per cent of the total white population. Of the native white group over 58,000,000, or 72 per cent, were born of native parents, over 15,000,000, or 19 per cent, were born of foreign parents, and almost 7,000,000, or 9 per cent, were born of mixed parentage. In some small industrial cities the foreign born outnumber the native born, and in many large cities the foreign born and those born of foreign parents outnumber the native born of native parents.

The percentages of foreign born and foreign parentage reaches a maximum in the North Atlantic and North Central States. The territorial distribution of our immigrants is indicated by the following table which is fairly typical.

Distribution of White Foreign-born Population[1]

Geographic division	Number	Percentage
New England....	1,870,654	13
Middle Atlantic..	4,912,575	36
South Atlantic....	315,920	02
North Central....	4,595,240	33
South Central....	531,272	04
Western.....	1,487,093	12
Total.....	13,712,754	100

[1] According to U. S. census, 1920.

The industrial development of the United States created a demand for unskilled labor which was supplied largely by immigration. Hence, the industrial states of the North and East have received most of this European immigration. The great cities of this section are now confronted with a serious problem of congestion. The important industries in which immigrants are engaged are mining, manufacturing, construction work, transportation, and domestic service. Agriculture has not played as significant a part with our recent immigrants as with the pioneer groups.

3. Immigration and the Native White Birth Rate.—The enormous immigration into the United States must not be construed as a net

increase to our population. European immigration has been accompanied by a fall in the native white birth rate. Indeed, General Francis Walker went so far as to contend that the population of the United States would have been as great as it then was if the United States had received no immigration from Europe during the greater part of the nineteenth century. Although this extreme position is very doubtful, General Walker[1] was one of the earliest American economists to suggest that there was an inverse relationship between the rates of increase in our population by immigration and the rates of increase by a natural surplus of births over deaths in our native population. Let us examine this correlation by reviewing the census figures.

RATE OF INCREASE IN THE POPULATION OF THE UNITED STATES[1]

Year	Per cent of total increase	Per cent by immigration	Per cent by birth
1840	32.67	4.66	28.01
1850	35.87	10.04	25.83
1860	35.58	11.12	24.46
1870	22.63	7.25	15.38
1880	30.08	7.29	22.79
1890	25.50	10.46	15.04
1900	20.73	5.86	14.87
1910	21.02	11.57	9.45
1920	15.00	4.50	10.50

[1] U. S. census.

This table shows that with few exceptions the rate of native increase has fallen when the rate of increase by immigration has increased and *vice versa*. Such statistics, however, need careful refinement before any sweeping conclusions may be drawn from them. Nevertheless, one cannot escape the conclusion that immigration has affected the native birth rate in the states of the North and East. It is also interesting to note that the South, which has received little immigration from Europe, has had a rapid rate of increase since the Civil War, due to a high rate of increase on the part of the native white population.

4. Decrease of Native White Birth Rate.—At the present time the United States is facing the problem of a decrease in the birth rate of our native white stock. The average size of the American family has decreased from 5.6 in 1850 to 4.3 in 1920. Thus, in the last half century it has decreased by more than one whole person. The so-called French problem of "race suicide" is equally visible in Vermont.

[1] WALKER, F., "Discussions in Economics and Statistics," pp. 215 to 225.

This decrease in the native white birth rate is still more striking when we compare our native white birth rate with that of our immigrants.[1] Thus, in 1910 in the state of Massachusetts the native birth rate was 14.8 per thousand while that of the foreign born was 49.5 per thousand. The death rates of the native and foreign born in that state and year were 16.3 and 15.5, respectively. Although these figures may be extreme, they indicate not only the enormous disparity between the rate of native and foreign born increase, but also the fact that the native stock is scarcely increasing at all. It is actually decreasing in some communities where its birth rate is lower than the death rate. Although in many immigrant groups the death rate is enormous, there is a great surplus of births over deaths. The more prolific immigrants and not the descendants of the Pilgrim fathers may inherit the lands about Plymouth Rock.

There are numerous causes for the decline of the native white birth rate. Chief among these is the economic cause. American standards of living have been rising, but wages have not risen sufficiently to permit the rearing of large families without a sacrifice of the accustomed standard of living. The economic competition of the immigrant will be discussed in a later paragraph. Partially as a result of this pressure on wages and standards of living, the age of marriage has advanced and the size of the family has decreased within certain groups in the United States.

The problem, however, involves more factors than merely immigration. Among the native-born population there are great differences in the birth rates. The size of the family seems to vary inversely with that of the income. The birth rate is greater and the family is larger among the laboring classes than among the "social set." This problem of the "social pyramid" will be treated in Chap. V.

5. Tides of Immigration.—As water seeks its own level, so population tends to flow from densely populated countries to sparsely settled countries and from barren regions to richer lands. Early migrations took the form of movements of an entire group from one place to another. The process was slow and halting and marked by frequent conflicts. Although later emigration and immigration have been those of individuals and their families, the net result on populations often has been comparable to the early migrations of entire groups.

For the period from 1820 to 1925 gross immigration to the United States was over 36,000,000. During the past century about 30,000,000 immigrants have made the United States their permanent home. About half arrived during the past generation, which has been characterized by immigration on a large scale.

[1] Vital statistics, *i.e.*, birth rates and death rates, are expressed per thousand of the total population. Vital statistics are kept by all the states of the Union, but the figures for some states are more authentic and complete than for other states. Massachusetts is selected because of its accurate vital statistics and also because of the existence in that state of a sufficient number of immigrants to afford a fair comparison.

Not only have the tides of immigration changed quantitatively but also qualitatively. The sources of European immigration have shifted from northern and western Europe to southern and eastern Europe. Hence, we sometimes speak of the older and the newer immigration.

The following table will show the volume of immigration in the decades since 1820.

IMMIGRATION TO THE UNITED STATES[1]

Decade	Number of immigrants	Decade	Number of immigrants
1820 to 1830	151,824	1871 to 1880	2,812,191
1831 to 1840	599,125	1881 to 1890	5,246,613
1841 to 1850	1,713,251	1891 to 1900	3,687,564
1851 to 1860	2,598,214	1901 to 1910	8,795,386
1861 to 1870	2,314,824	1911 to 1920	5,735,811

[1] U. S. census.

The first date for which we have accurate information is 1820, and the total number of immigrants who arrived in that year was only 8,000. This number slowly increased, but it was not until the 'forties that the annual number of immigrants passed the 100,000 mark. Important dates in the history of immigration are 1846 and 1848. The former was the year of the failure of the potato crop in Ireland and the latter was the year of revolutions in Germany and central Europe. Subsequently, the number of immigrants increased rapidly, but the movement was checked by the outbreak of the American Civil War.

In the 'seventies the tides of immigration again began to increase, and they rose to still greater proportions in the 'eighties. There was some decline in the 'nineties; but from the opening of the twentieth century to the outbreak of the World War, European immigration into the United States reached unprecedented proportions. The annual number of immigrants was sometimes over 1,000,000. The World War and our recent legislation resulted in a great reduction of immigration from this high water mark.

It is interesting to see how economic conditions within the United States have reflected themselves in the immigration rates. Periods of industrial depression, as well as wars, have been characterized by a considerable falling off of immigration. The curve of immigration corresponds roughly with that of national prosperity within the United States and the curve of emigration varies inversely with that of prosperity in the European countries.

6. Periods of Immigration.—The history of immigration may be divided into different periods according to its volume and sources.

There was first the colonial period, which continued some years after the American Revolution. The year 1776 marks no such turning point in the social and economic history of America as it does in its political history. The War of 1812 may be accepted as a more accurate date for the beginning of American economic independence.

The second period of American immigration extended from the early years of the nineteenth century until the time of the Civil War. It includes such dates as 1846 and 1848. The immigrants were chiefly British, Irish, German, and Scandinavian.

The third period of immigration extended from the Civil War to 1882. The latter date is rather important in the history of immigration. Immigration figures for that year reached a new maximum which was not passed again until 1903. The year 1882 also serves well to date qualitative as well as quantitative aspects of the problem. After 1882 German and Scandinavian immigration almost ceased, but it marked the first appearance on a considerable scale of immigrants from Russia, Italy, and the former kingdom of Austria-Hungary. Again, the first Chinese Exclusion Act was passed in 1882 as well as the first important Federal law for the regulation of European immigration.

The fourth period of American immigration extended from 1882 to the World War. It represented large-scale immigration and immigration from southeastern Europe. It also represented a period of regulated immigration instead of free immigration.

The present period, inaugurated by the World War, is the fifth and most recent epoch. It represents restricted immigration rather than merely regulated immigration.

7. Early Immigration to America.—In the making of Americans and American institutions, English settlers played a preeminent part. Before the Revolutionary War and for several generations thereafter, British settlers led in numbers and in relative proportions.

Although the colonial settlers were principally British, there was a considerable sprinkling of other nationalities, especially in the Middle colonies. At one time it was feared that the enormous immigration of Germans into Pennsylvania from the Palatine provinces would drive a wedge through the English colonies at the same time that they were being closed in upon by the French from the north, the west, and the south.

Although the English gentry were abundantly represented among the American colonists, the lower classes of English society also were present in large numbers. Indentured servants, convicts, and the victims of London kidnappers were sent to America. Dr. Samuel Johnson termed Americans "a race of convicts" who "ought to be content with anything we allow them short of hanging." The subsequent history of the American people has made ridiculous this caustic comment of Dr.

Johnson, but it should make Americans of today hesitate about heaping similar invectives upon the heads of our more recent arrivals.

The Irish and Scotch, as well as the English, played an important part in the settlement of America. In the generation before the Civil War, Ireland occupied a unique position, for Irish immigrants made up from one-third to two-fifths of our total immigration. The population of Ireland during these years was reduced by emigration and famine to one-half its original numbers.

The German element also played an important part in the immigration to America during the middle of the last century. The total volume of German immigration approximated 5,000,000. It was concentrated chiefly in certain communities of Pennsylvania, Missouri, Illinois, and Wisconsin. There are interesting differences in the social heredities of the German and Irish immigrants, as well as in the occupations into which they went.

Scandinavian immigration also played an important part in our national life. At one time there were over 1,000,000 people in the United States who had been born in Norway, Sweden, or Denmark. The Scandinavian immigration settled chiefly in the Northwest, in such states as Minnesota, Wisconsin, Iowa, and the Dakotas.

8. Changes in the Sources of Our Immigration.—The change in the character of immigration into the United States may be seen in the following table.

PERCENTAGE OF TOTAL IMMIGRATION COMING FROM SPECIFIED COUNTRIES[1]
(By Decades from 1861 to 1910)

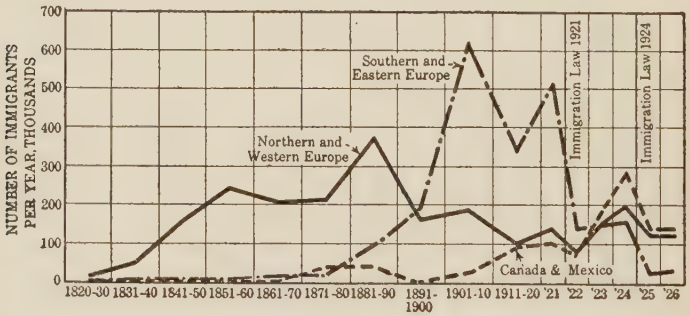
Country	Years				
	1861 to 1870	1871 to 1880	1881 to 1890	1891 to 1900	1901 to 1910
Austria-Hungary	0.33	2.6	6.7	16	24.4
German Empire	35.00	25.5	28.0	14	3.9
Italy, Sicily, Sardinia	0.51	2.0	5.9	18	23.3
Russian Empire, Finland	0.2	1.9	4.4	14	18.2
United Kingdom	38.0				
England		15.6	12.0	6	4.4
Ireland		15.5	12.0	10	3.9

[1] FAIRCHILD, H. P., "Immigration," p. 135.

The above table will show that the percentages of immigration from the northwestern and southeastern countries of Europe have been practically reversed. A line drawn diagonally across Europe from the northeast to the southwest will separate the sources of our early immigration from the sources of our later immigration. These two European

areas present interesting differences in religion, political organization, race, literacy, and economic development. The physical and social heredity of the Teutonic peoples is closer to our own than is that of the Latin and Slavic races. Although not necessarily inferior in these respects, the newer immigrants present a more difficult problem of assimilation. It has sometimes been said that the chief causes of the earlier immigration were religious persecution and political oppression, but that the causes of the recent immigration are economic. Although this statement contains a certain amount of truth, all these forces have operated during all the different stages of immigration.

CHART 2.—THE CHANGING CHARACTER OF OUR IMMIGRATION



Prepared from U. S. Census figures.

9. Later Immigration to the United States.—Before the World War Italy was sending annually to the United States between 250,000 and 500,000 immigrants. Almost an entire village was sometimes transplanted. The greater portion of this immigration was Sicilian or south Italian rather than north Italian. The Greeks as well as the Italians have recently immigrated in large numbers to America.

At the present time there are about 2,000,000 Slavs within the United States. The numerical proportions of these divergent Slavic groups run somewhat as follows, Poles, Bohemians, Moravians, Slovaks, Slovenes, Croatians, Dalmatians, Russians (exclusive of Russian Jews), Bulgarians, Servians, Montenegrins, Slavonians, Ruthenians, Lithuanians, and Letts.

The Magyars or Hungarians, great numbers of whom came to the United States, are of a different racial origin. The Hungarians and Finns are partly Mongul in blood and are descended from the Asiatic invaders who came up the Danube River. The attempted Russification of Finland drove many Finns to America in the period before the World War. Of similar Mongul extraction are the Turks, a small portion of whom have come to America.

The Syrians and the Armenians have come to the United States in considerable numbers. Thus, immigration to America has spread not only to southeastern Europe but also to western Asia. At the present time there are about 2,000,000 Hebrew immigrants in the United States. America is indeed the "Promised Land."

It is interesting to contrast the different groups among our recent immigrants, as well as the old immigrants with the new. Recent immigrants represent divergent racial groups and possess very different social heredities. They sometimes bring with them old-world animosities and prejudices, such as those between the Poles and the Jews and between the various groups of what was formerly the polyglot kingdom of Austria-Hungary.

It is also interesting to see the industrial distribution of our recent immigrants. Thus, the Italians have gone especially into construction work and truck farming, the Finns into agriculture, the Hungarians and many Slavic groups into mining. Some occupations are stigmatized as "dago jobs" or as "hunkie labor."

Most immigrants tend to settle in our congested industrial areas, and each large city has its "little Italy" and its "little Hungary." The Jewish immigrants have shown a peculiarly strong tendency to settle in the cities, where they engage in trading and manufacturing. Among this group of immigrants the sweatshop has been prevalent, and many attempts to settle the Hebrew immigrants on the land in agricultural pursuits have been unsuccessful.

10. Points of View toward Immigration.—There are several points of view toward the problem of immigration, which often reflect one's vested interests rather than the scientific point of view. In the first place, there is a tremendous difference of opinion as to the relative desirability of different groups of immigrants. These divergent points of view often reflect merely the heredity of different individuals rather than a statistical measurement of the relative contribution of different immigrant groups to America's welfare or to America's maladjustments. Thus, the older American immigrants or their descendants sometimes speak disparagingly of the more recent arrivals to the United States. Objective tests of race superiority, however, are difficult.

In the second place, there is a considerable diversity of opinion as to the desirability of any large European immigration, irrespective of its racial composition. Organized labor has consistently opposed the competition of the European immigrant with the American worker. Therefore, trade unionism has sought to limit immigration into the United States. On the other hand, capitalists and large employers of labor have sought to facilitate European immigration into this country in order to provide a large labor reserve of tractable workers.

In the third place, is what is known as the "sentimental" point of view, which regards America as the haven of refuge for all oppressed individuals. The limitation of immigration is viewed as inconsistent with an assumed world mission of America. The scientific student should not accept the vested interest argument of either labor or capital. Nor can he accept naive idealism in lieu of a sober consideration of the effects of unrestricted immigration.

11. Industrial Development and Immigration.—The great industrial development of the United States was accompanied by an enormous immigration from Europe. It has been contended that the former was dependent on the latter, although the reverse of this proposition could be argued with equal logic. There is however, a causal relationship between our great industrial development and our large immigration from Europe. The introduction of machinery and the minute division of labor which accompanied it created a demand for unskilled labor which was met by immigration from Europe. But the reverse relationship is also true, namely, that immigration made possible the greater utilization of machinery and division of labor.

Immigration has largely supplied the great labor reserve for the basic industries of the United States. This has not been an unmixed blessing, for in times of economic depression a large proportion of immigrants have been forced out of work. This lowest paid group has often suffered the most from unemployment. The large immigrant labor reserve has also encouraged seasonal occupations and a temporary economic expansion which often accelerated the business cycle.

12. Economic Effects of Immigration.—Unskilled immigrant labor gradually permeated all our basic industries, and the native American worker was displaced by the more recent arrivals from Europe. In the mines and in numerous other occupations there has been a gradual change in the nationality of the workers employed, as one racial group has given way to another and then to still another. The new immigrants with still lower standards of living than their predecessors tended to displace them in a given industry. Thus, there is a kind of Gresham's law which seems to have operated with immigrant labor. Just as cheap money tends to drive better money out of circulation, so cheap labor tends to displace labor with a higher standard of living. There is no doubt of this industrial competition between the immigrant and the native worker and between the older immigrant and the newer immigrant. The question is whether the American worker has been driven up the economic plane of competition into something better or merely out of a given occupation.

This competition between different standards of living is a very important aspect of the immigration problem. The problem of low wages and low standards of living is most acute among the recent immigrant

groups. Because of their low standards of living they can accept a wage which is higher than that of their native land, but which is too small to maintain an American family in decency. This is reflected in miserable tenements, housing congestion, great infant mortality, and child labor.

The working conditions of the immigrants are on a plane with their living conditions. Not only will they accept a wage which is regarded by American workers as woefully inadequate, but also they will accept employment under unfavorable conditions. Extreme ignorance or stolid indifference makes the immigrant worker impervious to the hazards of modern industry, as represented by dangerous trades and unhealthy working conditions. Differences in race and language also make it difficult for them to organize and to develop effective collective bargaining. Not only is the immigrant capable of being exploited, but also, he is used to break down the collective bargaining of organized groups of American workers.

13. Immigration and Wages.—Professor Fairchild[1] contends that the peak of real wages for the unskilled worker in the United States was reached about 1890 or 1892, after which it steadily receded until the time of the World War. He further contends that the enormous immigration from Europe during this period was one factor in the depression of the real wages of unskilled labor. It was within this group of workers that the real competition of the immigrant was felt. The depression of wages was accomplished in two ways: first, by a mere increase in the relative supply of unskilled labor due to immigration, and, second, by the fact that low standards of living and low wages were a part of the social heredity of the new workers.

Standards of living have been regarded as the resultants of two great factors, the stage of the arts and the ratio of men to land. In both these respects the United States has been very fortunate. They afford the true explanation of our high standards of living, which so often have been ascribed incorrectly to numerous other causes.

The greater pressure of population on the natural resources of other lands results in lower standards of living and smaller real wages than prevail in the United States. Modern immigration is a movement of population from low-standard areas to high-standard areas. The Malthusian tendency[2] soon eliminates the temporary relief afforded by emigration in the old countries, but immigration reduces the standards of living in the new country. Hence, it has been contended that immigration has reduced the real wages and standards of living of unskilled labor in the United States without appreciably reducing the pressure of population on land at home.

[1] Fairchild, H. P., "Immigration."

[2] The tendency of population to increase more rapidly than the food supply, described by Thomas Malthus in his "Essay on Population."

It does not follow, however, that immigration has reduced the real wages and standards of living of all economic groups within the United States. It has sometimes been alleged that the American worker has been forced out of the labor group in which this competition existed and into a higher economic group. He has generally been kicked upstairs, rather than downstairs. Failure to progress, however, does not mean stagnation, but actual retrogression in standards of living in a country of progressive ideals and relative standards.

Economists are not agreed as to what extent this forcing-up process has taken place, and many are inclined to believe that immigration has not merely depressed the wages of unskilled labor, but also, the wages of labor in general. Moreover, although standards of living have not declined absolutely, they may not be as high today as they would have been if European immigration had been restricted.

The pressure of immigration on standards of living has also been reflected in the lowered birth rate of the native Americans. If a choice must be made between the customary standard of living and the size of the family, the American worker will maintain the former at the expense of the latter.

14. Social Effects of European Immigration.—The social effects of immigration are as important as the economic effects. The newer immigrants from Europe, whether inferior or superior, are more difficult to assimilate than the older immigrants whose social and racial heredity was more closely akin to our own. From a sociological point of view America is a great melting pot of different races and civilizations. If the physical heredity of our immigrants is not extremely different from that of the native American, this racial mixture may be biologically beneficial. The introduction of different social heredities may likewise be beneficial. Provincialism will disappear as we become the heir to the cultures of the world.

A word of caution, however, is necessary. If immigration is unrestricted, America may become the heir to the poorer rather than to the better physical and social heredities of Europe. Moreover, if the process is too rapid, America may become Europeanized rather than the immigrant Americanized. True Americanism does not necessitate the possession of Mayflower ancestry, but it does necessitate the possession of certain civic and social ideals which we are pleased to term "American."

The grafting of the best of America's social heredity on the new biological stock from Europe cannot be done by our characteristically large-scale methods. The public schools of our large cities have done a wonderful work among the children of our immigrants. The second generation becomes Americanized so rapidly, however, that there is apt to take place a weakening of parental authority. The older immigrants often tend to resist actively or passively the process of Americanization.

Assimilation is difficult because of the tendency of each immigrant group to huddle together with others of the same nationality in some congested section of our large industrial cities. Their miserable living conditions are also a constant threat to American standards of living.

In addition to its effects on standards of living, immigration manifests itself in a higher rate of illiteracy and in a greater proportion of social debtors. Illiteracy is higher among both the European immigrants and the American Negroes than it is among the native white group. In the matter of poverty and dependency the two former groups are also decidedly higher than the latter.

The alleged criminality of the immigrant has been much discussed. When we refine our statistics, however, we find that the criminal rate of the immigrant males within the so-called "criminal ages" is not in excess of that of the total male population between the same ages. The children of our immigrants, however, show a proportion of criminality which is far in excess of that of the general population. These findings would seem to show that the criminal tendency lies not so much in the physical nor even in the social heredity of the immigrant as in the slum environment of our American cities.

It must also be noted that there have been about three times as many men as women among our recent immigrants, most of whom have come to America in response to the demand for unskilled labor in industry. Any great numerical disproportion between the sexes is unfortunate. The presence of male lodgers, as well as the existence of housing congestion, makes difficult a wholesome family life among the immigrants.

A word must be said of the political effects of immigration, as well as of its economic and social effects. Municipal corruption and the boss system are rendered easy by the existence of a large number of ignorant immigrants in each large city. The professional politician knows the strength of this foreign vote. The immigrant voter is easily coerced or cajoled to "vote right" by the local "ward heeler." The latter can withhold certain favors and petty patronage which the immigrant desires. In the absence of any ability to visualize abstract principles of government, the foreign-born citizen gives his allegiance to some friendly individual whom he knows personally.

15. Regulation of Immigration.—Popular agitation for the regulation of immigration goes as far back as the "Native American" and "Know Nothing" parties which existed even before the Civil War. But the first important law for the regulation of immigration was passed in 1875. It provided for the exclusion of criminals and immoral women.

In 1882 a fairly comprehensive law was passed for the general regulation of immigration. Hence, this date serves as a convenient point to distinguish not only between the early European immigration and the

later European immigration, but also between the period of free immigration and that of regulated immigration.

The act of 1882 was followed by several later statutes designed to exclude foreign contract labor. Although some of this legislation concerning immigration savors of restriction rather than merely of regulation, it may be said that the chief aim of legislation from the Civil War to the World War was that of regulation rather than the restriction of immigration.

Only the following groups were actually excluded, contract labor, anarchists, immoral women, criminals (except for political offenses not recognized by the laws of the United States), paupers and those likely to become public charges, mental defectives, and those with infectious diseases, such as trachoma and tuberculosis.

16. Types of Regulation.—It has been said that there are four chief protective purposes[1] which are served by immigration regulations. The first of these is the social and political protection of the general community. Hence, the United States has prohibited the landing of prostitutes (1875), criminals (1875), professional beggars (1903), polygamists (1891), and anarchists (1903).

A second kind of protection is that of the public health. Hence, Congress has passed legislation designed to keep out immigrants suffering from contagious diseases (1891) and especially those having tuberculosis (1907).

A third type of exclusion is that for the benefit of the taxpayer in particular, as well as that of the general community. Hence, Congress has excluded individuals likely to become public charges (1882), particularly lunatics, idiots, and epileptics (1891). The imposition of a head tax on all immigrants best illustrates this type of regulation designed to exclude those apt to become public charges. This head tax, first imposed in 1882, was originally 50 cents, but it was gradually raised, and in 1917 increased to $8.

The fourth type of regulation is for the purpose of protecting American labor. It may be regarded as a kind of tariff on imported labor, comparable in some respects to the American protective tariff on imported goods. Manufacturers desire a tariff against cheap European goods, but the American laborer desires a similar protection against cheap European labor. This type of legislation approximates the restriction rather than the regulation of immigration. It is of most importance to the student of labor problems.

17. Trend from Regulation to Restriction of Immigration.—An act of 1864 which encouraged immigration was repealed in 1868, which date marks the beginning of a new negative attitude toward immigration.

[1] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., pp. 70–72, 1927.

Before its repeal individual employers and organized associations were engaged in recruiting European workers for immigration to the United States.

In 1885 this inducement of immigration was formally forbidden by a statute commonly known as the Contract Labor Law of 1885. It forbade the assistance or encouragement of immigrants coming here under contract to work as unskilled laborers. This piece of legislation was the result of the efforts of the Knights of Labor and early American trade unionists.

Under the Act of 1891 the United States government made it even more difficult for an immigrant who had previously obtained work to enter this country. The General Immigration Act of 1917 still further broadened the scope of the term "contract labor" as a restriction on immigration.

Steamship companies had formerly encouraged immigration because of the large profits of steerage transportation. They were soon compelled to restrict their advertising and the solicitation of prospective immigrants to the United States. They were ultimately required to return at their own expense those immigrants who failed to pass the admission tests at Ellis Island.

The period of the World War marks the final transition from the period of regulated immigration to that of restricted immigration, just as a generation or two before that time this country had passed from free immigration to regulated immigration. Public opinion in the United States gradually began to demand more than the mere regulation of immigration. Labor organizations in particular began to agitate for the restriction of immigration.

18. Literacy Test and Other Early Plans for the Restriction of Immigration.—One proposed plan for the restriction of immigration was the imposition of large head tax or the insistence on the possession of a substantial sum of money as a requirement for admission. As stated in a foregoing paragraph, the head tax was raised to $8 in 1917. But this measure was regarded as entirely inadequate, and other proposals were made for the restriction of immigration.

Another popular plan was the literacy test which required that each applicant for admission to this country be able to read and write some language, not necessarily English. Such a bill had passed Congress on several occasions, but it had been vetoed successively by Presidents Cleveland, Taft, and Wilson. Although President Wilson had vetoed a bill restricting immigration by the literacy test in 1915, and again in 1917, such a law was finally passed over his veto in 1917.

The literacy test has been defended both as a measure of regulation and as one of restriction. Not only will it decrease the number of immigrants, it also will assure a better type of immigrant by the elimination of illiterates. But the critics of the literacy test, as a method

of regulating immigration, point out in reply that the ability to read and write does not necessarily imply good citizenship. It is an accurate measure neither of individual character nor of biologic fitness.

The advocates of the literacy test reply in rebuttal that the literacy test is easy of application. Even if it is not the best method of selection, it is one of the most practical. Again, many of its advocates are more interested in the quantitative aspects of immigration than in its qualitative aspects. The reduction of numbers, rather than the improvement of quality, has been their chief desire. The aim of such legislation has been the restriction rather than the regulation of immigration.

Immigration from Europe practically ceased during the World War, but with the conclusion of peace the problem reappeared in a still more acute form. The literacy test seemed inadequate to keep out the new tide of immigration which threatened this country. Enormous numbers of emigrants from all lands sought to come to the prosperous United States in order to forget the ravages of war and to escape the excessive burdens of post-war taxation.

On the other hand, the World War made this country conscious of the difficulty and duty of Americanizing the foreign elements within its population. It was felt that immigration should be still further restricted. Indeed, it was even proposed in Congress that all immigration be suspended for a year or two.

19. Immigration by Quotas.—A law was finally passed in 1921 which permitted European immigration, but which definitely restricted the amount. The annual immigration of each nationality was limited to 3 per cent of the number of foreign-born residents of that nationality living within the United States, as revealed by the census of 1910. Although President Wilson had refused to sign such a bill, President Harding did so shortly after his inauguration.

Because of this new law, which rigidly restricted immigration, the number of immigrants fell from 805,000 in 1921 to 309,000 in 1922. Its effect was to check immediately the threatened tide of emigration from war-stricken Europe to the United States. Although the law of 1921 was passed for the duration of only 1 year, it was subsequently extended for 2 more years, that is, until June 30, 1924.

In 1924 no disposition was shown to let down the immigration bars which had recently been erected, but rather to raise them to even higher levels. Immigration was still further restricted by reducing the quotas from 3 to 2 per cent. Moreover, it was provided that these quotas should be based on the census of 1890, rather than on that of 1910 or on a still more recent census. The new plan favored the Nordic countries of Europe rather than the Mediterranean lands. If the quotas had continued to be based on the 1910 census, however, the reverse would have been the case.

The immigration law of 1924 also provided that "no alien ineligible to citizenship shall be admitted to the United States." This clause is very important, because the naturalization law states that its provisions "shall apply to aliens being free white persons and to aliens of African nationality and to persons of African descent." In other words, only Caucasians and Negroes are eligible to citizenship and hence to immigration. It is hoped that Mongolians and other Asiatics may be excluded under some such general and negative provision, rather than, as at present, under specific Chinese and Japanese exclusion acts.

The Immigration Act of 1924 attempted to eliminate certain administrative difficulties, such as the rejection of immigrants on this side of the Atlantic Ocean because their quotas had been filled. The annual allotment was divided into monthly installments and a slight excess in one month might be carried over into the next month, provided that each month's acceptances should not exceed 10 per cent of the annual quota. In this manner the law sought to end the former race of steamers to Ellis Island in the early months of the year, in order that they might deposit their steerage cargoes of immigrants before their respective quotas were closed. Again, a prior examination of the prospective immigrants was made in Europe. A limited number of eligibles were permitted to receive visas from the American consuls in their native lands. In this way the hardship and expense of a fruitless journey across the Atlantic ocean were spared many of them.

The law applied to immigrants from all countries of the world except Canada, Newfoundland, Mexico, Cuba, Haiti, Dominican Republic, Canal Zone, or an independent country of South America. Oriental immigrants are excluded by the general provision that immigrants must be those eligible for citizenship and by the Chinese and Japanese exclusion acts. Hence, the quota immigrants are chiefly from European countries. The exemption of Canada, Mexico, Cuba, and other countries of North and South America from quota restrictions has created the possibility of smuggling "bootleg immigrants" across the border and indirect immigration to the United States through the exempted nations of the new world.

Immigrants are now divided into quota and non-quota groups. Certain exempted classes are now admitted outside the quotas. These include (1) wives and unmarried children under eighteen years of age of a citizen of the United States; (2) lawfully admitted aliens temporarily abroad; (3) immigrants from excepted countries and wives and children under eighteen; (4) certain professional classes and (5) students.

The new immigration restriction of 1924 further reduced the amount of immigration and radically changed its character. Only 160,000 to 170,000 new alien immigrants are permitted to come to this country annually from Europe. Of this number about 80 per cent are from

northwestern Europe instead of from southeastern Europe, as was the case before the World War. Not only did the character of European immigration change, but the total amount of European immigration lost its prior position of paramount importance. The quota exemptions in the law of 1924 resulted in a decided, relative increase and a slight, absolute increase in our immigration from other countries of the Americas. About three-fifths of our recent immigration has been from the Western Hemisphere, chiefly from Canada and Mexico. In the fiscal year ending June 30, 1927, about a half million immigrants entered this country, but only one-third of them were "quota" immigrants.

20. National Origins Plan.—It was proposed that the act of 1924 should remain in effect for only 3 years, that is, until July 1, 1927. In the meantime a thorough study was to be made of the people of the United States in order to determine our "national origins" for the purpose of fixing immigration quotas. The secretaries of commerce, labor and state, assisted by the Census Bureau, were to cooperate in this study of national origins and to report to the president, who was to announce the new quotas on July 1, 1927. Such a study was made, but the United States Senate was not satisfied with the proposed quotas. Accordingly, the Act of 1924 was continued for one more year, that is, until 1928, when the new national origins plan went into effect.

EUROPEAN QUOTAS

	1927 plan	Act of 1924		1927 plan	Act of 1924
Austria	1,639	785	Jugoslavia	739	671
Belgium	1,328	512	Lithuania	492	344
Czechoslovakia	2,726	3,073	Netherlands	3,083	1,648
Denmark	1,234	2,789	Norway	2,403	6,453
Finland	568	471	Poland	6,090	5,982
France	3,308	3,945	Roumania	311	603
Germany	24,908	61,227			
Great Britain and New Ireland	65,894	34,007	Russia	3,540	2,248
Greece	312	100	Spain	305	131
Hungary	1,181	473	Sweden	3,399	9,561
Irish Free State	17,427	28,567	Switzerland	1,614	2,081
Italy	5,989	3,845	Turkey	233	100

The new plan of "national origins" quotas provides that

> . . . the annual quota of any nationality for the fiscal year beginning July 1, 1927, and for each fiscal year thereafter, shall be a number which bears the same ratio to 150,000 as the number of inhabitants in continental United States in 1920 having that national origin bears to the number of inhabitants in continental United States in 1920, but the minimum quota of any nationality shall be 100.

In this manner it was hoped that the national quotas, to be determined by the ancestry of our population in 1920, will remain fixed for each succeeding year, so long as the law remains in force.

The changes proposed are slight. Under the 1924 act, using the 1890 census, 84.5 per cent of the total number of quota immigrants are from northern and western Europe and 15.5 per cent are from southern and eastern Europe. Under the quotas submitted in 1927 northern and western Europe would furnish 83.7 per cent, and southern and eastern Europe 16.3 per cent of the quota immigrants.

21. Asiatic Immigration and Its Exclusion.—The immigration of Chinese began with the discovery of gold in California in 1849. With the later development of the Pacific states they threatened to immigrate in such large numbers that Congress passed the Chinese Exclusion Acts of 1882, 1884, and 1888. The immigration of Chinese of the laboring classes was completely forbidden. Our colonial possessions in the Pacific ocean, however, have a large proportion of Mongolians, some of whom have smuggled themselves into continental United States.

Although the Japanese did not begin to cross into America until after the Chinese, the former now slightly exceed the latter. They have played an important part in the fruit industry of California. However, industrial competition and race friction soon developed. Thus, it has been contended by the Japanese government that the laws of California discriminated against the Japanese in the matter of land holding and public education.

For a number of years there was a "gentlemen's agreement" between the United States and Japan for the limitation of Japanese immigration. In 1924, however, the American Congress passed a Japanese Exclusion Act somewhat similar to our Chinese Exclusion Act. The Japanese objected to being treated differently from any other friendly nation, and the desired objective could have been obtained in a more diplomatic fashion. The number of Japanese, who would have been eligible for immigration under the general immigration restriction act of 1924, would have been almost negligible.

The economic and social problems of Asiatic immigration are more acute than those of European immigration. The economic problem of low wages and low standards of living is also greater. The social problem is even more serious, because the Mongolian is almost impossible to assimilate. If Asiatic immigrants were not excluded, America would be confronted with a racial problem in the West somewhat similar to the Negro problem of the South.

22. The Negro as an Element in Our Laboring Population.—Negro immigration into America took place during colonial days. It was compulsory rather than voluntary, because the Negroes were brought over as slaves. That they are now here in the United States is due to

no action of their own, which fact should be remembered by the descendents of the white settlers.

Both the death rate and the birth rate of the American Negro are high. Although the number of Negroes in the United States has doubled since their emancipation, their percentage of total population has decreased from 15 to 10 per cent. Their numbers are steadily increasing, but not at a disproportionately rapid rate.

Nearly nine-tenths of the 10,000,000 Negroes of the United States formerly lived south of the Mason and Dixon line. Almost eight-tenths lived within the "Black Belt," which is a broad agricultural plain extending from Virginia to Texas. In many southern communities there still are more Negroes than Caucasians. These Negroes are engaged largely in the harvesting of the cotton crop. Of recent years, however, there has been a tremendous northward migration of the American Negro. He has gone from his former agricultural environment into the large industrial cities.

The Negro as well as the immigrant is now an important factor in the unskilled labor group of all our basic occupations. There is the same industrial competition of low standards of living with higher standards and the same depressing effect on the wages of the native white workers. Like the immigrant the Negro is not very amenable to organization, and he has profited little by collective bargaining. Very often, however, he has been excluded from labor organizations by virtue of his race rather than because of his own indifferences. In any event, he has contributed in a large measure to the floating labor reserve and even to gangs of strike breakers.

The Negro problem has numerous aspects, such as the social, the economic, the political, and the educational. The economic problem of the Negro centers about his standard of living and his industrial efficiency. Both humanitarian and selfish interests should prompt the white workers to encourage the Negro to raise his standards of living, rather than to view such aspirations with suspicion. Helpful cooperation must succeed race friction. Racial amalgamation is desired by the intelligent leaders of neither group. Separate but friendly coexistence seems to be the only policy.

The industrial problem of the Negro is essential in any scheme of racial adjustment. He must become an efficient and dependable factor in economic production. Economic independence will help to lessen his amount of crime and pauperism. The Negro must acquire habits of steady work and thrift, which numerous immigrant groups possess. However, these changes in social heredity are not easy. The freed slaves were turned loose without land or capital and were forced to readjust themselves to a system of labor by free contract.

In some sections of the South a survival of the old plantation system still exists. The Negro is sometimes kept in debt to the landlord and to the plantation store. Sometimes a contract is signed which holds him to the job, for fugitives are severely punished by the law. Peonage differs from slavery merely in the fact that the bonds of the former system are those of chronic indebtedness rather than actual ownership.

Negro ownership of land is as desirable in the agricultural South as peasant ownership in Europe. The agrarian problems are somewhat similar. Some progress, however, has been made in this respect, and the per capita wealth of the Negro has slowly risen.

Industrial education is still one of the great needs of the Negro at the present time. Booker T. Washington, in Tuskegee Institute, emphasized this aspect of the educational problem of the Negroes. Another type of education, however, is also necessary to provide colored teachers and leaders.

23. Summary.—During the past century the United States experienced a phenomenal increase of population. In 1790 our population was less than four million, but in 1920 it was over one hundred million, having doubled itself every generation. Immigration played an important part, although it is doubtful to what extent it has increased the total net population. The increase in European immigration has been accompanied by a fall in the native birth rate. At the present time the immigrant birth rate is considerably greater than that of the native white population. At present, about nine-tenths of our population is Caucasian, of whom between eight- and nine-tenths are native born. The foreign born and those of foreign parentage are to be found chiefly in the North Atlantic and North Central industrial states.

Immigration to the United States increased from a few thousand annually in the opening years of the last century to a maximum of a million a year in some of the opening years of the present century. The development was from small scale to large scale immigration. Fluctuation in the volume of immigration has been due to wars and to alternating conditions of prosperity and depression.

The early sources of our European immigration were Great Britain and Ireland, but the German and Scandinavian contributions were also important. Toward the close of the past century, however, the character of our immigration changed. Its European sources shifted from the northwestern countries to the Mediterranean lands. Our later immigrants brought to us a different racial and social heredity from that of the earlier immigrants. Before the World War, Italy, Austria-Hungary, Russia, and the Balkan countries were sending us a large number of immigrants. Thus, in the decade between 1861 and 1870 northern and western Europe furnished over 70 per cent of our immigrants, but in

the decade between 1901 and 1910 southern and eastern Europe furnished almost 70 per cent of our immigrants.

The problem of immigration presents social, economic, and political phases. From an economic point of view immigration presents the problem of an industrial competition between different standards of living. Although it has played an important part in the industrial development of the United States, immigration has tended to lower the wages of American unskilled labor. The social problem of immigration is represented by the difficulty of assimilating and Americanizing our foreign immigrants.

The population of the United States is not entirely Caucasian. There are a few Indians, but this problem is chiefly historical. On the other hand, about 10,000,000 of our population are Negroes. Although located principally in the agricultural South, there has been a considerable migration within recent years of the southern Negro to the industrial cities of the North. There are also a few thousand Mongolians, Japanese, and Chinese, on our western coast. Differences of race and in standards of living prompted the United States to adopt a policy of exclusion toward the Chinese in 1882 and toward the Japanese in 1925.

Early immigration to the United States was regulated neither as to quantity nor quality. In the closing years of the past century, however, numerous laws were passed to keep out undesirables. During the period of the World War, America passed from the regulation of immigration to the restrictions of immigration. The literacy test was added to the existing restrictions as to contract labor and as to the possession of a certain amount of money. In 1921 a quota system was imposed which limited European immigration in a given year to 3 per cent of that of a given nationality in the United States according to the census of 1910. In 1924 the rate was further reduced to 2 per cent and the basis changed to the census of 1890. A "national origins" plan for the determination of immigration quotas is now in effect.

Collateral Reading

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Questions for Discussion

1. Show the relationship between the Malthusian law and the law of diminishing returns from land.
2. In what countries is the Malthusian tendency most evident? Why?
3. Illustrate the forces which oppose the Malthusian tendency.
4. Contrast early and recent causes of immigration.
5. Contrast the early and the later immigrants to the United States.
6. Criticize the present immigration law.
7. Criticize the exclusion of Japanese. Defend this policy.
8. What do you understand by the economic problem of the Negro?
9. Show the effects of immigration on standards of living and wages.
10. What peculiar problems does Asiatic immigration present?

11. Show how the United States passed from free immigration to regulated immigration and then from regulated immigration to restricted immigration.
12. Indicate the effect of wars and the business cycle on the problem of immigration.
13. Do you regard the census of 1890, or that of 1910, as the fair basis for determining immigration quotas? What other alternatives are there?
14. What is the "national origins" plan?
15. Do you favor the literacy test for immigrants? Why or why not?

Topics for Investigation

1. The relationship between the development of the economic life of a people and the size of its population.
2. Immigration and the native white birth rate.
3. Immigration restriction and the present need for unskilled labor.
4. The World War and our immigration policy.
5. The selection of immigrants on the basis of fitness.
6. Organized labor and the immigrant.
7. Organized labor and the Negro.
8. The economic status of the Negro in the Black Belt.
9. The migration of the Negro into industrial cities of the North.
10. Americanization programs and the public school.

PART TWO

PROBLEMS OF INCOME

Chapter IV. Economic Prosperity and the Growth of the National Income, *The Increased Productivity of Labor.*

Chapter V. The Diffusion of Our National Prosperity, *Economic Inequality and The Ideal of Equality of Opportunity.*

Chapter VI. Theories of Wages and the Course of Real Wages, *Labor's Share in Our Increased Prosperity.*

Chapter VII. Poverty and Subnormal Standards of Living, *The Inadequacy of Family Wages.*

CHAPTER IV

ECONOMIC PROSPERITY AND THE GROWTH OF THE NATIONAL INCOME

THE INCREASED PRODUCTIVITY OF LABOR

1. Ideal of Economic Prosperity.—Prosperity may be defined as an abundance of economic commodities and services. National welfare consists of many other things than great national wealth, just as individual happiness embraces many other factors than an abundance of economic goods. Health, education, patriotism, spiritual and aesthetic ideals, moral and ethical values might be mentioned as necessary to national welfare and individual happiness. But these important concepts are immaterial, subjective, and difficult of common agreement or of exact measurement. They are not within the immediate province of the economist. Wealth, however, is objective, material, and capable of measurement. Again, national prosperity is an important element in national welfare, although it is not the only conditioning element. Similarly, a minimum of wealth seems necessary to the happiness and well being of most normal individuals.

It is generally conceded that America is a prosperous nation. Today, she is the creditor of the World. Nature has been very bountiful to the United States and our physical environment is characterized by numerous and valuable natural resources. Climate and soil are rich and diversified, and excellent waterways and rich mineral resources exist in abundance. Moreover, in spite of considerable waste, it may be said that America's adaptation to her physical environment has been fairly satisfactory. Our inventive genius and capacity for industrial organization are famous. The intelligence and skill of our workers are probably as great as anywhere else in the world. Although productivity per acre is higher in those countries which practice a more intensive cultivation of the land, productivity per man is higher in the United States than in most other parts of the world.

Individual prosperity and national prosperity, however, are not synonymous. In a land of plenty a surprisingly large number of families live in poverty. In spite of our seeming prosperity a number of economic maladjustments exist which mar our national welfare and limit our national prosperity. The scientific method takes nothing for granted and attempts to ascertain the causes of such a situation. Moreover,

it seeks to determine inductively and quantitatively the size of the national income and its actual distribution. Is it adequate in size and distributed in such a fashion that a decent standard of living can be enjoyed by all workers and their families? What is the basis in fact for our assumption of prosperity on the part of the nation at large and on the part of individual citizens?

It should be remembered that prosperity is an economic ideal in the same way that democracy is a political ideal. Both prosperity and democracy are relative terms. Economic progress constantly advances the goal of national prosperity and permits higher standards of living to be enjoyed.

Both increased national prosperity and increased individual prosperity are dependent on a larger national income. Higher standards of living are conditioned by increased production, as well as by a more equitable distribution of the wealth produced. Anything which tends to increase the national income tends to raise real wages. Labor is bound to share to some extent in increased national prosperity and to suffer from any decrease in the national income. If a conflict of interests between individuals representing different factors in production results in such a tacit or open industrial warfare that production suffers, the national income will be reduced correspondingly. Unfortunately, most attempts of the workers to raise wages have centered chiefly about the distribution of wealth and the problem of economic inequality. However, both greater national prosperity and greater individual prosperity require increased production.

2. National Wealth and National Income.—The measure of America's prosperity is our national wealth and income. Wealth represents the stock of economic goods in existence at a given time. Income, on the other hand, represents the flow of economic commodities and services within a given time. Wealth represents our capital investment, and income its yield within any year or some other period of time. Wealth is a great reservoir of economic goods, but income is the flow of those commodities and services within any given time.

A considerable portion of the national wealth is in the hands of the government in the form of public goods. A large part of the national income each year goes to the Federal, state, and local governments in the form of taxes. Money is a mere medium of exchange, for governmental receipts or credits are turned into such things as battleships, roads, and schools. An increasing portion of the national wealth and income goes into collective consumption, which is represented by public goods and governmental services.

Another portion of the national income goes into the formation of intermediate wealth or capital goods which are to be used in further production. Due allowance must be made for the replacement fund of

industry or duplication will occur and the national income will be exaggerated.

Real income must be distinguished from money income. Any estimate of the national wealth or income over a period of years must be refined by taking into consideration the changes in the general price level. The increase in wealth or income, as expressed in dollars, may be apparent rather than real. Real income is a flow of goods or services, for which money has been the mere medium of exchange and the fluctuating standard of value.

It is obvious that the stream of national income divides itself into branches of different size. To some families it brings automobiles, fine clothes, and other luxuries, whereas to other families it brings merely the bare necessities of life.

3. Growth of Our National Wealth.—Since the opening of the present century there has been a great increase in the national wealth of the United States. It must be remembered constantly, however, that a great increase in valuation over a period of time may be due to increased scarcity rather than to an actual increase in economic goods and services. Again, allowances must be made for variations in the general price level, when changes in the national wealth, expressed in monetary terms, are traced over a period of time.

The monetary estimates in dollars by the Census Bureau of the national wealth of the United States for recent years run somewhat as follows: eighty-eight billions in 1900, one hundred and seven billions in 1904, one hundred and eighty-six billions in 1912 and three hundred and twenty billions in 1922. In 1929, just on the eve of the Federal Census of 1930, our national wealth was variously estimated at from three hundred and sixty billions of dollars upward. Hence, there has been an increase in the monetary value of the national wealth of United States, most of which, however, is due to increased scarcity of our natural resources and to the decreased purchasing power of money.

The census tables are given on p. 74, for reference purposes.

The wealth of the United States has apparently not reached its peak. The productivity of industry seems to be increasing in an unprecedented fashion, of which more will be said in the concluding paragraphs of this chapter. Again, the people of the United States are saving a considerable portion of their national income and thus increasing their national capital. In spite of high standards of living and extravagance on the part of many individuals, ample provision for the future seems to be made, first by industry itself in the form of increased surpluses and undivided profits, and second by individual savers in the form of increased bank deposits and the purchases of new securities.

Now as the facts of industrial life for 1924 are becoming available we find that the people were remarkably busy working for themselves all the time they were

NATIONAL WEALTH OF THE UNITED STATES
(As Estimated by the Bureau of Census in Current Dollars)

	1922	1912	1904
Total	320,803,862,000	186,299,664,000	107,104,194,000
Forms of wealth:			
Real property and improvements taxed	155,908,625,000	96,923,406,000	55,510,228,000
Real property and improvements exempt	20,505,819,000	12,313,520,000	6,831,245,000
Live stock	5,807,104,000	6,238,389,000	4,073,792,000
Farm implements and machinery	2,604,638,000	1,368,225,000	844,990,000
Manufacturing machinery, tools, and implements	15,783,260,000	6,091,451,000	3,297,754,000
Railroads and their equipment	19,950,800,000	16,148,532,000	11,244,752,000
Motor vehicles	4,567,407,000		
Street railways, shipping, waterworks, etc	15,414,447,000	10,265,207,000	4,840,547,000
Street railways	4,877,636,000	4,596,563,000	2,219,966,000
Telegraph systems	203,896,000	223,253,000	227,400,000
Telephone systems	1,745,774,000	1,081,433,000	585,840,000
Pullman and other cars not owned by railway	545,415,000	123,363,000	123,000,000
Pipe lines	500,000,000		
Shipping and canals	2,951,484,000	1,491,117,000	846,490,000
Irrigation enterprises	.....	360,865,000	
Privately owned water works	360,885,000	290,000,000	275,000,000
Privately owned central electric light and power stations	4,229,357,000	2,098,613,000	562,851,000
All others	80,261,762,000	36,950,934,000	20,460,886,000
Agricultural products	5,465,796,000	5,240,020,000	1,899,380,000
Manufactured products	28,422,848,000	14,693,862,000	7,409,292,000
Imported merchandise	1,548,666,000	826,632,000	495,544,000
Mining products	730,296,000	815,552,000	408,067,000
Clothing, personal adornment, furniture, horse-drawn vehicles, and kindred property	39,816,001,000	12,758,225,000	8,250,000,000
Gold and silver coin and bullion	4,278,155,000	2,616,643,000	1,998,603,000

cheering for the statesmen. They brought forth a sufficient amount of product to maintain themselves in a pretty tolerable state of comfort throughout the year, and to add some $10,000,000,000 to their durable wealth represented by houses and other buildings, by automobiles and roads, and by permanent improvements to their railroads, public utilities, and manufactures. When they had done this there was still almost a billion dollars' worth of product which they sent abroad. There were also interest and principal accruing to them on their investments abroad. The people of this country took in return for their excess exports and their rights to principal and income $250,000,000 of gold, which they did not greatly need, and $1,000,000,000 of foreign securities. It appears then that the national savings for the year approximated $11,000,000,000.

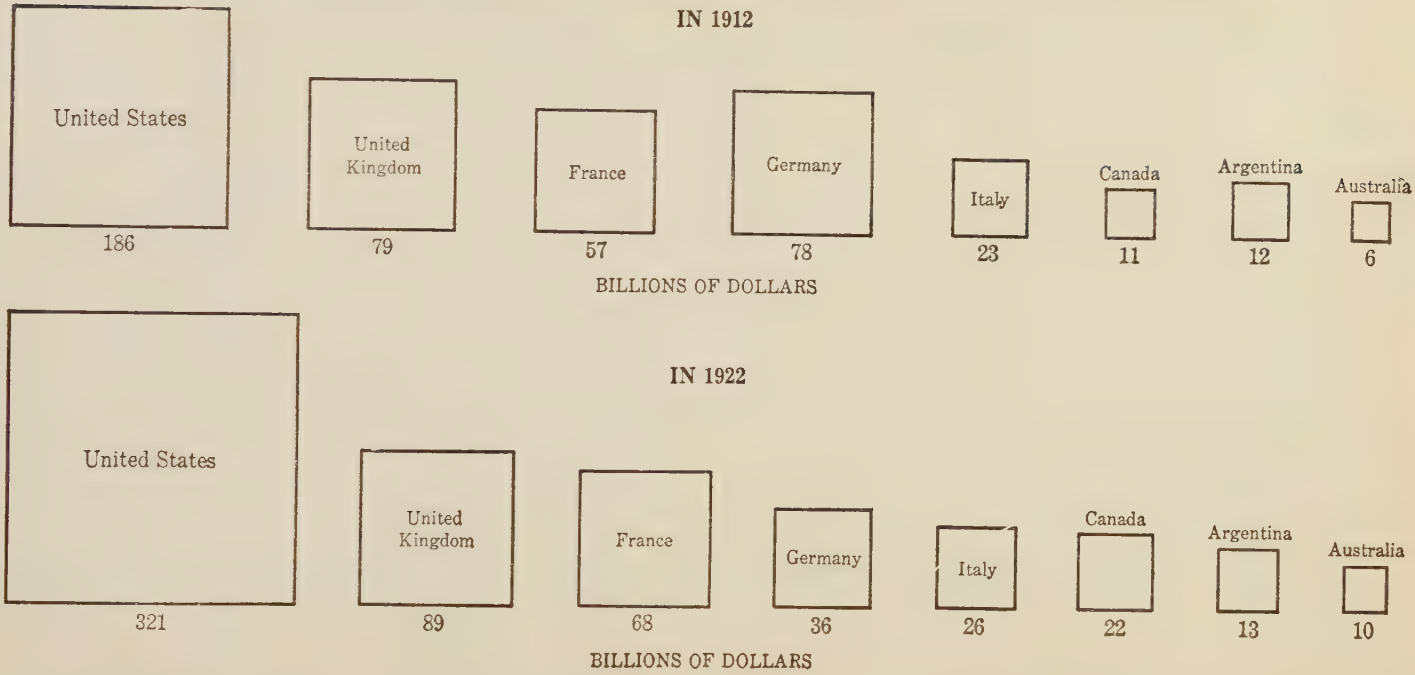
All this has been accomplished, too, while we have been paying almost $8,000,000,000 in taxes to the Federal, state, and local governments for the support of their activities. True, these governments have returned $1,000,000,000 in round numbers to the people in payment of debts, and another $1,000,000,000 in payment of interest. But this still leaves $6,000,000,000 as the portion of the national income which was used for the prosecution of public purposes rather than the pursuit of private ends.

With such a volume of savings there should be no dearth of capital in the United States; and the experience of the year shows that there is none. We financed the largest volume of building operations which has ever been carried on in any year. We absorbed a volume of new corporate and government securities during 1924 which was unprecedented in our history. New capital issues, excluding refunding, listed by the *Commercial and Financial Chronicle*, totaled $5,569,689,190. This is a full billion and a quarter larger than the flotations of any previous year.[1]

4. Comparison of National Wealth of the United States with that of Other Countries.—The enormity of the wealth of the United States may be seen by a comparison with other countries of the world. At the present time the national wealth of the United States is greater than the combined national wealth of all the countries of western Europe. It will further be noted that the rate of increase of the national wealth of the United States in the decade from 1912 to 1922 was far more rapid than that of most countries having comparable data.

[1] FRIDAY, DAVID, *The New Republic*, Mar. 11, 1925.

CHART 3.—RELATIVE NATIONAL WEALTH OF SEVERAL IMPORTANT COUNTRIES IN 1912 AND 1922[1]



[1] See table on p. 77.

GROWTH OF WEALTH OF THE COUNTRIES OF THE WORLD[1]

(Figures in Millions of Dollars)

	1922	1912
United States	320,803	186,299
United Kingdom	88,840	79,297
France	67,710	57,075
Germany	35,700	77,783
Italy	25,986	23,030
Spain	29,319	No data
Switzerland	4,567	3,030
Russia	No data	56,140
Poland	17,000	No data
Latvia	1,000	No data
Finland	3,600	No data
Netherlands	8,260	4,827
Canada	22,095	10,980
Mexico	7,900	No data
Cuba	8,000	No data
Argentina	13,178	11,680
Brazil	13,020	No data
Chile	3,064	No data
Peru	4,000	No data
India	21,960	No data
China	19,087	No data
Australia	9,689	6,113
New Zealand	1,756	No data

[1] TUGWELL, R. G., MUNRO, T., and STRYKER, R. E., "American Economic Life," p. 118. Note that these figures are not deflated, that is, they do not make allowance for differences in purchasing power in different times and places.

5. Comparison of National Incomes.—Income is an even better measure of prosperity than wealth. It will be seen that our national income, like our national wealth, is very large and that it has been growing very rapidly. The contrast between the national income and the per capita income of the United States and those of other countries is as striking as the comparison of their national wealth.

The following table on p. 78 gives the relative position of the chief countries of the world with respect to their national incomes and their per capita incomes, expressed in current dollars, in 1914 and also in the following decade, that is, roughly about the present time. In this manner may be shown relative changes, as well as relative differences. Because of changes in the purchasing power of money, however, there is less increase in real income than in monetary income. Again, all the estimates of the present annual incomes of the various nations are not for the same year. They are the best recent estimates for the countries concerned, which in some cases go back two, three and four years.

TOTAL AND PER CAPITA NATIONAL INCOMES OF VARIOUS COUNTRIES IN 1914 AS COMPARED WITH PRESENT TIME, EXPRESSED IN CURRENT DOLLARS

Nation	Total national income in 1914 in millions of dollars	Total national income at present in millions of dollars	National income per capita in 1914 in dollars	National income per capita at present in dollars
United States	33,200	89,419	335	749
United Kingdom	10,950	18,390	243	409
Germany	10,460	11,900	146	190
France	7,300	8,228	185	201
Italy	3,890	4,728	112	115
Spain	1,120	4,116	54	187
Japan	1,580	5,500	29	66
Austria-Hungary	5,350		102	
Austria		940		140
Hungary		962		113
Czechoslovakia		2,460		172
Yogoslavia		1,414		109
Australia	1,260	2,955	263	477
Canada	1,460	5,500	195	579
Union South Africa		851		112
India		9,250		37

[1] The figures for 1914 are taken from a summary of the estimates of various foreign writers compiled by Sir Joshiah Stamp and adapted by National Bureau of Economic Research. Cf. "Income in the United States, 1909 to 1919," Vol. 1, Summary, p. 85. The figures for the present time are taken from "Some New Estimates of National Income" prepared by Harvey E. Fisk of the Bankers Trust Company. Cf. *American Economic Review*, March, 1930, p. 23. These estimates can be compared only with a considerable margin of error, for the annual incomes in these various countries are for different years running roughly from 1924 to 1928. The present day estimate for Spain is of an even earlier date, but it is apt to be an exaggeration rather than a conservative estimate. The present time estimate for Great Britain (1924) unlike that for 1914 excludes the Irish Free State. No estimates have been refined for charges in purchasing power of money from 1914 to the present time.

6. Relative Wages and Standards of Living.—The Statistical Section of the League of Nations has been making comparative studies of wages paid in various countries of the world. These findings as to relative money wages have then been refined into relative real wages by expressing them in terms of the purchasing power of money wages or differences in the costs of living in the various countries studied. A key city has been selected in each of the countries investigated as a basis of comparison. In this way an index of real wages has been prepared for typical cities in different nations.

London was selected by the League as its basis of comparison. Hence, the average real wages of the workers in that city are represented by 100 per cent. The real wages of the workers in other key cities are expressed as percentages of this base.

The unit selected for this comparison has been termed "the basketful of provisions" currently consumed by the workers. Allowances have been made for local variations because of some differences in the types of goods consumed by the workers in different lands. Rent has also

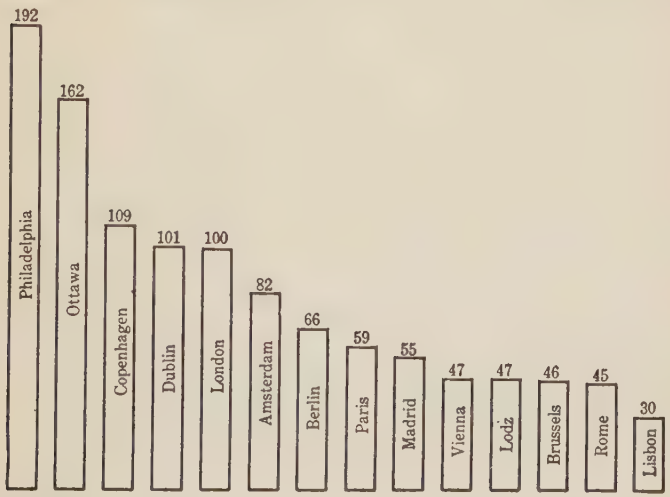
been considered as an important element in the standard of living wherever it has been found possible to ascertain a comparable unit. The result is as follows:

RELATIVE REAL WAGES IN VARIOUS CITIES IN 1928[1]
(General Average Index Numbers)

City	Based on food only	With allowances for rent
Philadelphia	192	192
Ottawa	162	160
Copenhagen	109	109
Dublin	101	110
London	100	100
Amsterdam	82	82
Berlin	66	61
Paris	59	
Madrid	55	
Vienna	47	53
Lodz	47	48
Brussels	46	49
Rome	45	47
Lisbon	30	

[1] Statistical Section of the League of Nations, January, 1928.

CHART NO. 4.—RELATIVE REAL WAGES IN VARIOUS CITIES IN 1928[1]



[1] See above table.

From these findings of the Statistical Section of the League of Nations, assuming that the key cities of the various countries are representative

of conditions throughout that nation, it would appear that the real wages of the American worker in 1928 were considerably greater than those of his Canadian neighbor, almost twice as great as those of the Danish, Irish, and English worker, approximately three times those of the German and French worker, approximately four times those of the Austrian, Belgian, and Italian worker, and over six times those of the Portugese worker.

7. Growth of Our National Income.—It has just been demonstrated that the United States is a prosperous nation as judged by a comparison of our national wealth, our national income, and our national wage level with those of other countries. The question must now be raised as to whether the United States is becoming more and more prosperous. Has our real, per capita, national income been increasing over a period of years? The comparison now becomes one of time, rather than one of place; that is, vertical rather than horizontal.

In order to determine whether the national income is increasing or not, and, if so, to what extent, it is necessary to refine changes in the national income in terms of changes in the general price level. The purchasing power of the dollar varies over a period of time. Moreover, the estimates must be further refined by taking into consideration the changes in population. It is obvious that the total national income, as expressed in current dollars, has increased enormously, but changes in the per capita real income are not so readily discernible.

Although there may have been short periods of decline, the total real income of the people of the United States has increased materially during the past century. It would also seem that our total real income has increased more rapidly than our population. Thus, Dr. King concluded that the per capita real income of the people of the United States, as expressed in terms of a constant, *viz.*, the average price level from 1890 to 1899, had increased from $69 in 1850 to $262 in 1910. If Dr. King's estimates are correct, it would seem that the average per capita real income of the people of the United States increased fourfold within those 60 years.[1]

The growth of the national income within more recent years can be seen by a survey of the results of the studies of the National Bureau of Economic Research. The following table gives the total national income in current dollars and in terms of a constant, the dollar of 1913. It will be seen that from 1909 to 1926 the national income in current dollars more than tripled and the national income in dollars of a constant purchasing power almost doubled.

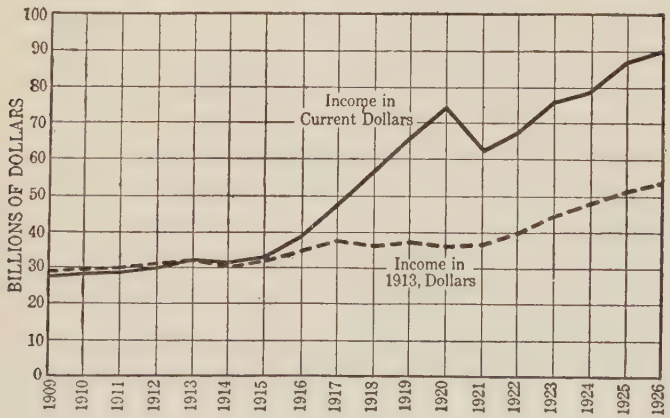
[1] KING, W. I., "Wealth and Income of the People of the United States," p. 129.

GROWTH OF THE NATIONAL INCOME[1]
(Expressed in millions of dollars)

Year	Current dollars	1913 dollars
1909....	27,100	28,200
1910....	28,400	29,100
1911....	29,000	29,300
1912....	30,600	30,800
1913....	32,000	32,000
1914....	31,600	31,300
1915....	32,700	32,000
1916....	39,200	35,500
1917....	48,500	37,300
1918....	56,000	35,500
1919....	67,254	37,600
1920....	74,158	36,300
1921....	62,736	36,200
1922....	65,567	40,400
1923....	76,769	46,900
1924....	79,365	48,400
1925....	86,461	51,100
1926....	89,682	52,900

[1] National Bureau of Economic Research "Income in the United States, 1909 to 1919" and "Income in the Various States, 1919, 1920 and 1921," Preliminary estimates, 1922–1926. *News Bulletin*, Feb. 21, 1927.

CHART 5.—GROWTH OF NATIONAL MONEY INCOME AND NATIONAL REAL INCOME OF THE PEOPLE OF THE UNITED STATES (1909–1926)[1]



Figures of National Bureau of Economic Research. See above table.

In order to determine whether or not the per capita real income is increasing, the statistics of national income must be refined not only in terms of changes in the general price level, but also in terms of our

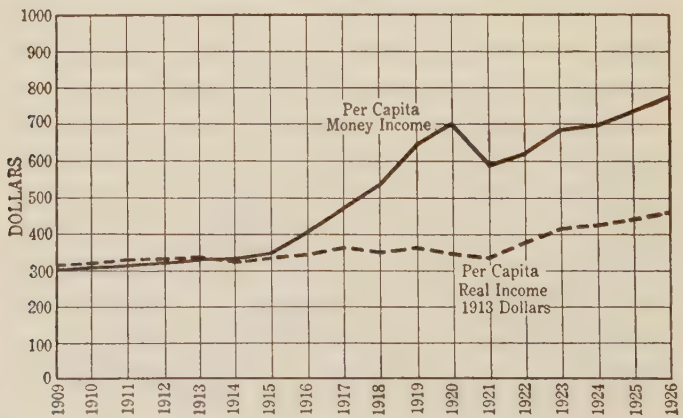
population growth. The following table gives the per capita money income and the per capita real income of the United States from 1909 to 1926.

GROWTH OF PER CAPITA MONEY INCOME AND PER CAPITA REAL INCOME[1]

Year	Current dollars	1913 dollars
1909....	299	312
1910....	307	315
1911....	309	312
1912....	321	323
1913....	329	329
1914....	320	316
1915....	326	319
1916....	385	349
1917....	470	361
1918....	537	340
1919....	640	358
1920....	697	341
1921....	579	334
1922....	597	369
1923....	689	421
1924....	700	426
1925....	752	445
1926....	770	455

[1] National Bureau of Economic Research. "Income in the United States, 1909 to 1919" and "Income in the Various States, 1919, 1920, and 1921." Preliminary estimates, 1922–1926. *News Bulletin.*, Feb. 21, 1927.

CHART 6.—GROWTH OF PER CAPITA MONEY INCOME AND PER CAPITA REAL INCOME IN UNITED STATES (1909–1926)[1]



Figures of National Bureau of Economic Research. See above table.

These estimates of the National Bureau of Economic Research indicate that the real per capita income of the people of the United

States has been growing rather rapidly during the past two decades. From 1909 to 1926 the per capita monetory income increased by almost 158 per cent and the per capita real income by almost 46 per cent.

8. General Increase of Physical Production.—Studies of the volume of physical production without reference to current prices also indicate a similar increase of production. This increase in the physical volume of production explains and reaffirms our analysis of the growth of the per capita real income of the United States.

Prof. Walter W. Stewart made a study of the physical volume of production for the 30 years between 1890 and 1919. He prepared a set of index numbers, using the average production of the years from 1911 to 1913 as a base. According to his index numbers the physical production of 1919 was triple that of 1890 and double that of 1900. His index numbers are given below for reference.

INCREASE OF PHYSICAL PRODUCTION IN THE UNITED STATES[1]
(100 per cent average physical production from 1911 to 1913)

Year	Per cent	Year	Per cent	Year	Per cent
1890	45	1900	66	1910	96
1891	54	1901	67	1911	93
1892	50	1902	77	1912	106
1893	49	1903	75	1913	101
1894	48	1904	80	1914	101
1895	57	1905	86	1915	112
1896	57	1906	91	1916	117
1897	62	1907	89	1917	124
1898	66	1908	84	1918	125
1899	65	1909	94	1919	120

[1] STEWART, W. W., "An Index Number of Production," *American Economic Review*, p. 68, March, 1921.

A similar study of Prof. Edmund E. Day revealed similar conclusions, namely, that the production of all classes of commodities had doubled during the first two decades of the twentieth century. Physical production jumped from an index number of 64.6 per cent in 1899 to one of 117.0 in 1920, the base, 100 per cent, being the average of production from 1909 to 1913.

Meanwhile, during the first two decades of the present century our population increased from about 75,000,000 in 1900 to about 105,000,000 in 1920. In the same 20 years that the physical volume of production had doubled, our population increased only about 40 per cent. Hence, production increased twice as rapidly as population. In other words, the per capita physical product increased by about 50 per cent.

Although some allowances must be made for exportation and international trade, there is abundant evidence of the rapid growth of produc-

tion, even when refined in terms of price changes and population growth. This increase in economic production is the physical basis of our present prosperity, of which rising standards of living afford superficial indications.

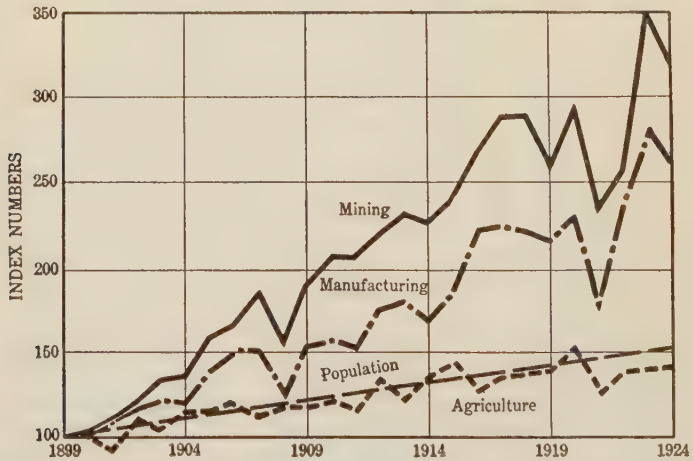
An equally optimistic picture is presented by the Director of the Division of Research and Statistics of the Federal Reserve Board, who wrote as follows:

From 1899 to 1919 the physical volume of production of farms, factories, mines, and railroads of the United States increased by 140 per cent, while population grew by only a little over 50 per cent. Thus, production per capita of population is now nearly 60 per cent greater than it was in the final years of the nineteenth century.

The volume of output for each worker engaged directly in production has increased since the beginning of the century at an even more rapid rate than that of production per capita of population. Output per person engaged in production has increased by 80 per cent as contrasted with 60 per cent of gain per capita of population.[1]

9. Industrial and Agricultural Productivity Compared.—This recent increase in productivity has not been the same in all occupations. The

CHART 7.—GENERAL TRENDS OF PHYSICAL PRODUCTION AND POPULATION (1899-1924)
(Base—Level of 1899—100 Per Cent)



Reproduced by courtesy of National Industrial Conference Board from Road Maps of Industry. Data for changes in physical volume of production are drawn from the Review of Economic Statistics of the Harvard Economic Service and population growth is calculated from U. S Census figures.

qualitative aspect of the problem is as interesting as its mere quantitative aspect. It is important to note that our great increase of production within recent years has been in industry, rather than in agriculture.

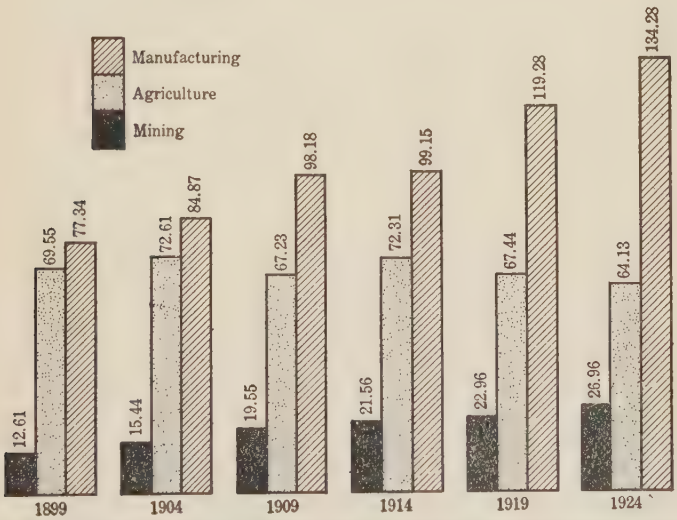
Chart No. 7, "General Trends of Production and Population," illustrates the growth of physical production in the United States from 1899

[1] THOMAS, W., "The Economic Significance of the Increased Efficiency of American Industry," *American Economic Review*, p. 122, Supplement, March, 1928.

to 1924. It will be seen that agricultural production and population increased at about the same rate. On the other hand, the physical product of our mines and factories increased far more rapidly than our population or our agricultural production.

Chart No. 8, "Production per Capita of Population," shows the increase in our national production in value rather than in physical product. The per capita product in mining, agriculture, and manufacturing for the various years has been expressed in dollars of a constant purchasing power. It will be noted that the per capita value of agricultural production actually decreased during the first quarter of the present century, whereas the per capita value of the products of our mines and factories just about doubled. This picture of the increasing industrialization of the United States is as important to students of labor problems as is that of our increased productivity.

CHART 8.—VALUE PRODUCTION PER CAPITA
(In Dollars of 1914 Purchasing Power)



Reproduced by courtesy of National Industrial Conference Board from Road Maps of Industry. Value of agricultural products is taken from Agricultural Year Book, U. S. Department of Agriculture, value of mineral products from U. S. Geological Survey, Department of the Interior; and value of manufactured products from Census of Manufacturers, U. S. Department of Commerce.

The following table pictures the growth of manufactures during the first quarter of the present century. It will be noted that the physical output increased fairly steadily except for a drop in 1921, a period of industrial depression. It will also be seen that there has been a correlation between the physical output and the number of persons engaged in manufacturing until recent years. But in the 4 years from 1923 to 1927 the physical output increased in spite of the fact that the number of persons engaged in manufacture declined. Since 1919 or 1921 the output

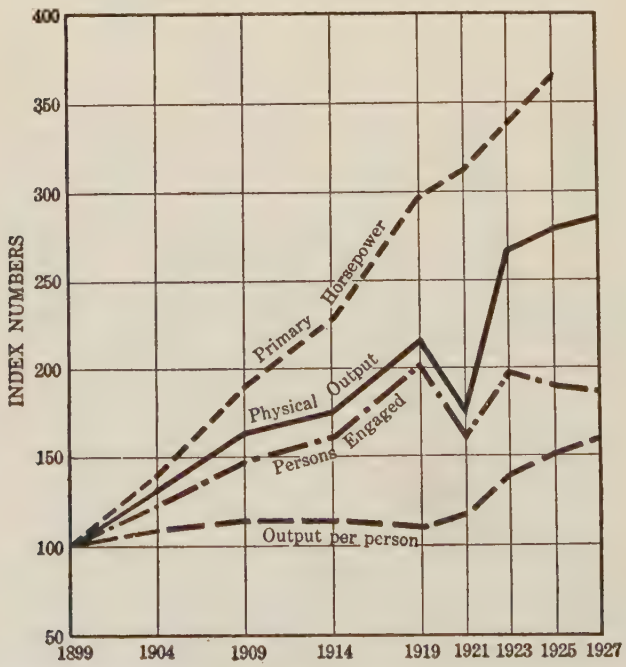
per worker has grown enormously, perhaps by 50 per cent. In the last place, the steady increase of power will be noted. This affords some explanation of our recent great increase in industrial productivity.

GROWTH OF MANUFACTURES BY CENSUS YEARS, 1899 TO 1925[1]
(Index numbers, 1899 = 100)

	Quantity of output	Number of persons engaged	Output per worker	Primary horsepower installed
1899	100	100	100	100
1904	122	117	104	134
1909	159	145	110	185
1914	169	156	108	222
1919	214	204	104	292
1921	170	158	107	
1923	261	197	132	330
1924	275	187	147	356
1927 (est.)	280–3	182–6	151–5	

[1] THOMAS, W., "The Economic Significance of the Increased Efficiency of American Industry," *American Economic Review*, p. 128, Supplement March, 1928.

CHART 9.—GROWTH OF MANUFACTURES (1899–1925)
(Base—Level of 1899—100 Per Cent)



Reproduced by permission from THOMAS, W., "*The Economic Significance of the Increased Efficiency of American Industry*" *in the American Economic Review, p. 127, Supplement, March,* 1928.

10. Recent Increase of Industrial Production.—Studies of industry for more recent years seem to indicate that the volume of physical product has increased at an accelerated rate. Moreover, the rate of productivity, as indicated by product per man hour, rather than by total production, seems to have increased even more rapidly. This seems true for industry as a whole, but more so for manufacturing than for agriculture, and more so for certain industries than for others. This situation may be illustrated by the following table.

INDUSTRIAL PRODUCTIVITY IN 1925[1]

(The base used is the year 1914, the productivity of which is expressed as 100 per cent. The figures given below represent the productivity of certain industries, expressed in terms of the productivity of 1914. These figures represent product per man hour and not total volume of product.)

Iron and steel industry	149.3
Automobile manufacturing	310
Boot and shoe manufacturing	116.5
Paper and pulp making	125.7
Cement making	157.8
Leather working	128.2
Flour milling	139
Cane-sugar refining	127.3
Petroleum refining	177.3
Slaughtering and meat packing	110.7
Rubber tire making	311

There is taking place in the United States today a new industrial revolution which may far exceed in economic importance that older industrial revolution ushered in by the series of mechanical inventions which occurred in England in the last quarter of the eighteenth century, and which eventually transformed English industrial, political, and social life. Many people today are aware of the fact that great improvements in machinery, processes, management, and output are taking place; but, except for a few magazine articles from time to time, very little has been done to express this advance in productive efficiency in comprehensive terms. Some people have hesitated to accept as typical of industrial production as a whole the surprising figures of improved output in particular plants or establishments. And yet, even when we deal in mass figures, the facts stand out clearly and unmistakably. We are at the present time experiencing what is perhaps the most remarkable advance in productive efficiency in the history of the modern industrial system.[1]

[1] CLAGUE, E., "The Productivity of Labor," *Monthly Labor Review*, July, October, November and December, 1926.

The increased rate of production becomes even more apparent when a contrast is made between two more recent years. Thus, the physical product per worker in manufacturing increased 37 per cent in the 4 years between 1919 and 1925. In this short interval of time the value of fac-

tory output increased by over a billion dollars, whereas the cost of raw materials decreased almost a billion dollars.[1]

Secretary of Commerce Hoover pictured the situation as follows in an address delivered in New York in March, 1926.

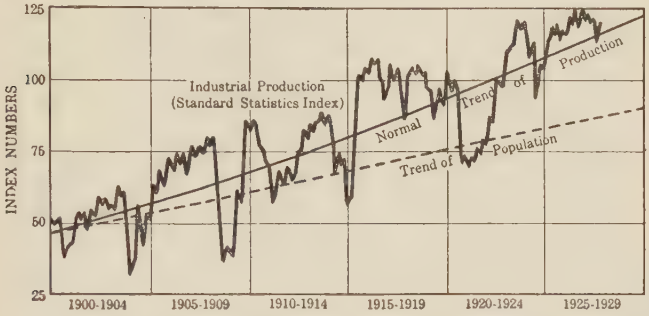
> Our work people have increased in education and skill. Above all, they are largely free from the economic fallacy that restriction of individual effort increases the number of jobs. Our national unions have long since declared against such theories. We are reaping the benefits of some 600 industrial research laboratories, mostly established in the last 10 years. They are ceaselessly searching for invention and for every economy in the use of materials and method. Under the pressure of high wages we have ruthlessly revised our industry with every new invention. Beyond this there is a great and cooperative movement in American industry and commerce for cutting out waste in a thousand directions through improved business practice, through simplification of processes and methods. Furthermore, we have had a great advantage, which we must not deny, in that by volume production, made possible through a great domestic market, we have been able by repetitive processes to apply or focus every advance into standard commodities of high quality and low cost of production.
>
> The cumulation of these forces has increased our national efficiency to a degree which I hesitate to express statistically lest we appear to exaggerate. But I might observe that, by and large, while we have increased our population 16 or 17 per cent in a dozen years, we have swelled productivity of the nation by something like 30 or 35 per cent. Our farms produce 13 per cent more with the same number of farmers as 12 years ago; our railways carry 22 per cent more traffic with about the same number of men. We have tamed the kilowatt into the friend of man. We have now domesticated some 68,000,000,000 kilowatt-hours annually where we used 23,000,000,000 12 years ago. They increase output and decrease sweat.

11. Irregularity of Production.—Although the United States has experienced a phenomenal increase in industrial production, it must be noted that this advance in productivity has gone forward at an irregular rate. Although our prosperity has increased, it has been unevenly distributed over periods of time. Although the long run or secular trend of productivity has been upward, there have been seasonal variations and cyclical movements. Although the general tendency of the per capita real income has been upward, and although the national prosperity has increased at a generally accelerated velocity, the movement has not been smooth and uninterrupted. Business cycles have occurred and periods of relative prosperity and relative depression have alternated. The upward curve of production, as well as of productivity, has had numerous indentations, which indicate either an absolute or a relative falling off of industrial activity.

[1] SLICHTER, S. H., "The Secret of High Wages," The *New Republic*, p. 183, Mar. 28, 1928.

Chart No. 10—"The Long-term Trend of Industrial Productivity" shows both the long run or secular trend of production and also the short-run or cyclical tendency. Although production increased more rapidly than population during the first generation of the present century, the upward trend has not been a regular one, but instead it has been characterized by repeated business cycles.

CHART 10.—LONG-TERM TREND OF INDUSTRIAL PRODUCTIVITY (1900–1927)



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One of the greatest problems of labor is the stabilization of production, as well as its increase. Just as there is a maldistribution of our prosperity among our population, so there is a maldistribution of industrial production over periods of time. The problem of the business cycle, therefore, is one of the greatest of all labor problems. Economic progress demands the stabilization of production as well as the increase of productivity.

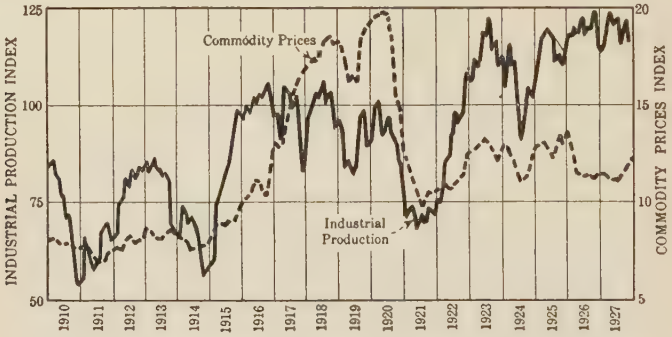
By the business cycle is meant the series of changes in business activity, commonly characterized by periods of alternating prosperity and depression. The former is characterized by an increase in production and by a great demand for labor, but the latter is characterized by a falling off of industrial output and an increase of unemployment. A treatment of the nature, causes, effects, and theories of the business cycle, as well as the numerous proposed remedies for it, is beyond the scope of this book, although its relationship to the stabilization of production and the reduction of unemployment must be mentioned.

The cyclical movements in business activity are accompanied by—and in some part caused by—changes in the general level of prices. During the period of business recovery prices tend to advance, reaching a high point during the period of prosperity, then declining until they reach a relatively low level during the period of industrial depression.

Chart No. 11, on page 90 will show that in the past few decades the curve of industrial production has followed the curve of the general price level. But a new and interesting movement will be discerned within the last few years, during which time the curve of production has risen

in spite of the fact that the general price level has not shown an upward trend.

Chart 11.—Industrial Production and Commodity Prices Compared (1910–1927)



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It is important to distinguish between artificial and real prosperity, that is, between a stimulated prosperity and a natural prosperity. It will be seen that rising prices and increased production are not inseparable, although they have frequently gone hand in hand during the past century. An artificial prosperity and an expanded industrial production may be stimulated by rising prices due to inflation by an overexpansion of the circulating media. Real prosperity is brought about by a natural increase of production and by greater industrial efficiency.

The prosperity of inflation is as deceiving as the hectic flush of an invalid which indicates an approaching collapse rather than a healthy condition. Inflation is likewise followed by deflation, and rising prices by falling prices. The result is a decline in industrial output and a decrease of employment. Real economic prosperity is not measured by quantities of money but by an abundance of economic goods with which to gratify human wants.

The business cycle is one of the greatest of all labor problems. A period of rising prices necessitates an increase of money wages, if the real wages of the worker are to be maintained at their former levels. Increased opportunity for employment is accompanied by a pressure on standards of living. A period of falling prices may be accompanied by gains in real wages, but also by a serious increase of unemployment. Hence, labor is threatened by both phases of the business cycle. The stabilization of production would be beneficial to both workers and employers, as well as to society in general.

12. Causes of Increased Prosperity.—The phenomenal growth of our national income has been due to many causes, and our recent increase in productivity may be explained in a variety of ways. Increased productivity has resulted from both material and direct causes, such as new

power machinery and technological advances, and from immaterial and indirect causes, such as improved economic and social organization. The secret of our increased productivity lies in the continued process of inventions and discoveries, the rapid increase of acquired knowledge and the general progress of the arts.

The wealth of our natural resources is another basic factor, and the conservation of our natural resources is essential to the prosperity of future generations. But national prosperity is limited by the character of our population, as well as by the conditions of our geographic environment. Conservative eugenic reforms can improve the biologic character of our population by the gradual elimination of those members of the social debtor classes who possess a degenerate stock.

Education, on the other hand, seeks to increase the knowledge, to improve the skill, and to raise the mental altitudes of our population. In this way popular education makes for the development of industrial efficiency and for the promotion of higher economic ideals.

Although the character and abundance of natural resources condition the prosperity of a nation, the adaptation of a people to their environment is by the growth of acquired knowledge and its utilization for industrial purposes. Although China probably has as great natural resources as the United States, the former is poverty striken while the latter is prosperous. In addition to the great pressure of population on resources in China, there was also the lack of an effective economic adjustment.

Active adaptation has expressed itself in the invention of power machinery, as well as in the discovery of improved processes. Each is related to the other, and both are essential in an explanation of our present prosperity. In this increase and utilization of acquired knowledge making for a superior adaptation to the physical environment, the inventive genius of the American Yankee has been conspicuous. American labor-saving devices are famous the world over.

It is said that the productivity of the average American worker today is a score of times as great as that of a Greek or Roman slave. The latter worked with his bare hands, or at best with primitive tools, but the former is aided by the industrial giants of power machinery. A small flour mill in Periclean Athens could grind one or two barrels of flour a day, but one of the modern flour mills of Minneapolis turns out daily between fifteen and twenty thousand barrels of flour.

The invention of power machinery, as well as the improvement of industrial processes, has been continuous since the beginnings of the Industrial Revolution in England. A new Industrial Revolution seems to have taken place within the United States during the past decade. We are now reaping its full effects in our enormous increases in productivity.

Division of labor has been an important factor in increased productivity. Although the invention of machinery has made for a minute

division of labor into simple tasks, the process of specialization has, in turn, made for the further invention of machinery and for the more complete mechanization of industrial processes. The productive advantages of division of labor are familiar to all students of economics.

Another cause of increased productivity has been the elimination of waste. Small-scale production has been succeeded by large-scale production with the utilization of by-products and the achievement of many economies in manufacturing. In turn, large-scale manufacturing has been supplemented by large-scale management which has achieved many economies of marketing. Both vertical and horizontal combinations have gone on apace. Business combination and association have created the problem of monopoly control, but they have also resulted in numerous savings and enormous economies which are reflected in increased productivity per man.

It has commonly been said that one of the great sources of our present prosperity and one of the chief reasons for our increased productivity is mass production. Mass production involves increasing the scale of operation so that a larger volume of output will result with lower unit costs of production. The principle of decreasing costs is utilized by the distribution of overhead charges over a greater number of units of product. This manufacturing policy is accompanied by the sales policy of securing maximum profits by enormous sales at relatively low prices.

In addition to the economic advantages of improved industrial processes, power machinery, division of labor, large-scale production and large-scale management, there must be mentioned a relatively new movement, known as the "scientific management" of industry. Indeed, scientific management bids fair to play the same part in the new industrial revolution which the invention of power machinery and the introduction of the factory system played in the earlier industrial revolution.

Scientific management, as will be seen in Chap. XVII, involves the elimination of guess work and the rule of thumb. It seeks to decrease the wastes of human efforts and economic goods and to increase the productivity of labor. Scientific management also involves the standardization of materials and processes, and the improvement of location, layout, and industrial routine. It increases the functions of management by a conscious direction of industrial processes and the careful planning of the tasks of labor.

Scientific management and large-scale production have been accompanied by industrial research which seeks constantly and consciously to improve industrial processes. By the utilization of scientific experimentation and industrial laboratories, new inventions are deliberately sought instead of being accidentally discovered as in the past history of industry.

The spread of general and technical education has been responsible in no small measure for the present increase in productivity. There

seems to be a causal relationship between the great prosperity of the United States and the large portion of our population who are going to school and who are remaining there until the completion of a high-school and even a college course. The democratization of education can be seen not only in the increased school population but also in the changing courses of study. Whatever else may be said against it, there can be little doubt that the development of commercial, industrial, technical, and vocational education has been responsible in no small measure for our great increase in industrial productivity.

Another factor in our increased productivity is the employment of women in industry. Although women have always been economic producers, they formerly worked in their own homes about the innumerable and heavy tasks of housekeeping. However, economic changes have permitted or induced millions of women, married as well as single, to enter industry and to be gainfully employed outside their own homes.

The entrance of women into industry has been accompanied by the improvement of working conditions and by the development of welfare projects. It has been discovered that healthy and happy workers are more efficient producers than sick, tired, or discontented employees. Scientific management has been supplemented by personnel administration. Hiring and firing was formerly done rather arbitrarily, and, consequently, the labor turnover was heavy. It has been found that the careful selection of employees, their promotion on merit, and their payment according to some acceptable measure of productivity have greatly increased industrial production.

There seems to have been some modification of the policies of labor as well as of management. Whereas management appears to have learned the lesson that high wages are not necessarily high-labor costs, and that low wages are not necessarily low-labor costs, labor, in turn, has begun to realize that high wages are a matter of increased productivity as well as one of redistribution. Thus, limitation of output, which is a direct threat to increased production, has come to be viewed by some labor leaders as a rather questionable expedient. It would also seem to be obvious to both labor and management that industrial conflicts are a great menace to economic prosperity. Profit sharing, employee representation, and employee ownership of stock are modern experiments in industrial democracy which should make not only for industrial peace but also for increased industrial productivity and a still further increase in the phenomenal prosperity of the United States.

13. Adequacy of Our National Prosperity.—The adequacy of our present prosperity and the ability of our national income to afford decent standards of living for our entire population are not difficult to determine. If one multiplies by five the per capita estimate of money income given a few sections back, he will obtain a theoretical average family income.

This will be found to vary from about $1,500 in 1909 to about $3,500 in 1920.

In spite of yearly fluctuations which parallel somewhat changes in the price level and variations in the costs of living, the theoretical average family income for each of these years will be found to be considerably in excess of the monetary estimate of a minimum standard of living for the same year. These estimates of minimum standards of living will be discussed in Chap. VII. It will be sufficient for the present to point out that not only is the national income increasing, but that it seems to be sufficiently large to permit a decent standard of living to be enjoyed by all the people of the United States.

The adequacy of the national income may also be tested by dividing it among all the workers, rather than among the total population. The following table gives the per worker, rather than the per capita, income, both monetary and real. These estimates, based on those of the National Bureau of Economic Research, are expressed, as before, in terms of current dollars and in terms of a constant, namely the dollar of 1913.

National Income per Person Gainfully Employed

Year	Current dollars	1913 dollars	Year	Current dollars	1913 dollars
1909	791	823	1918	1,386	879
1910	809	829	1919	1,669	934
1911	812	821	1920	1,851	907
1912	844	850	1921	1,537	887
1913	864	864	1922	1,586	979
1914	836	828	1923	1,821	1,113
1915	861	843	1924	1,840	1,121
1916	1,014	919	1925	1,971	1,165
1917	1,232	947	1926	2,010	1,186

The above table gives the national income per person gainfully employed. It is interesting to compare these findings with the average earnings of employed workers. The following table gives not the total, national income, but only the total, national, service income, divided among the same group, that is, among the number of workers gainfully employed. These findings of the National Bureau of Economic Research are given below:

AVERAGE ANNUAL EARNINGS OF EMPLOYEES NORMALLY EMPLOYED IN VARIOUS INDUSTRIES[1]

Year	Earnings in current dollars	Earnings in 1913 dollars
1909	626	656
1910	656	671
1911	648	659
1912	692	696
1913	723	723
1914	674	668
1915	697	677
1916	831	755
1917	961	745
1918	1,078	682

[1] National Bureau of Economic Research, "Income in the United States, 1909 to 1918," p. 102.

These findings of the National Bureau of Economic Research demonstrate the growth of the national income, as expressed per worker as well as per capita. They would also seem to indicate that the national income at present is sufficiently large and that the productivity of labor is now sufficiently great to permit minimum standards of living to be enjoyed by the whole population. On the other hand, the average annual earnings per worker, as found by the National Bureau of Economic Research, are not sufficient to maintain a decent standard of living for a family of five. It must be remembered, however, that these average annual earnings have been lowered by the inclusion of the wages of women and children as well as those of the heads of families. In Chap. VII will be treated the problem of standards of living and the adequacy of wages.

Although the equal division of our large national income would raise all families temporarily out of what is now regarded as poverty, it would not permit the popularization of extravagant consumption accompanied by the multiplication of leisure time. The Utopian dream of certain visionaries that an equal division of the national income would permit all individuals to live in luxury and greatly increased leisure is neither logical nor is it borne out by the statistics of income. Progressive standards of living are conditioned by constantly increased productivity. On the other hand, it is true that the problem of inadequate standards of living is one of distribution as well as one of production.

The equal division of the national income was suggested merely to obtain a theoretical average, either per capita or per worker, in order to test the adequacy of the national income to maintain what are regarded at any given time as decent standards of living. Although the institution of private property has permitted the perpetuation of economic inequali-

ties, it has also acted as a spur to increased productivity. Rash changes in distribution, which savor of confiscation, might result in so great a decrease in the national income that a lowering rather than an increase in standards of living might take place. The division of our national income and the problem of economic inequality will be discussed in the next chapter. Our present problem is the productivity of labor and the growth of the national income.

14. Summary.—Prosperity is a relative term and an economic ideal. It may be defined as an abundance of economic commodities and services. Judged by a comparison with other countries and with past decades in our own history, the United States may be termed a very prosperous nation.

The best measures of national prosperity are our national wealth and our national income. Wealth represents the stock of economic goods in existence at any given time and income the flow of commodities and services over a period of time. Wealth and income are usually expressed in terms of money, which is good measure of value at any given time but an inadequate measure of value over a period of time. Hence, real income or wealth must be distinguished from the current monetary expressions of income or wealth. Again, wealth and income must be refined in terms of population changes. The best measures of relative prosperity are per capita real wealth and per capita real income.

The national wealth of the United States in 1922 was estimated by the Census Bureau to be $320,000,000,000. Between 1912 and 1922 there was an increase of 20 per cent in the real national wealth of the United States, which was greater than our 10 to 15 per cent increase in population during that decade. At the present time it would seem that the national wealth, the national income, and the per capita income of the United States greatly exceed those of other countries.

The National Bureau of Economic Research has carefully studied the size, sources, and tendencies of the national income from 1909 to the present time. It has established the fact that our per capita real income has been increasing. The national income increased from $27,000,000,000 in 1909 to $90,000,000,000 in 1926, or expressed in terms of a constant, the dollar of 1913 purchasing power, from $28,000,000,000 in 1909 to $53,000,000,000 in 1926. The per capita income jumped from $299 in 1909 to $770 in 1926. In terms of the same constant, the dollar of 1913, this was an increase from $312 in 1909 to $455 in 1926.

Studies of the physical production of the United States indicate that it doubled in the first two decades of the present century, or more than twice as rapidly as our population increased. The increase in production has been especially rapid in recent years in manufacturing. Between 1919 and 1925, for illustration, the physical output per worker in manufacturing increased 37 per cent.

Our great increase in production has not followed an even course. It has reflected the fluctuations of the business cycle. Although increased industrial production has generally been accompanied by rising price levels, such was not the case from 1921 to 1928, during which period production increased without the lure of rising prices.

Economic prosperity is conditioned by an abundance of natural resources in proportion to population. It is further conditioned by the state of the arts and by the intelligence and education of its people. In these respects the United States is fortunate.

The present industrial revolution in this country is responsible for our increasing prosperity. In brief, this important movement involves the increased use of power resources, the increased mechanization of industry, the introduction of improved processes, mass production, and the decrease of waste by scientific management within industry and consolidation among industries.

National prosperity does not guarantee individual prosperity. Although the national income is large enough to afford an average family wage which would be more than sufficient to maintain a decent standard of living for all, it does not follow that such is the case. The problems of economic inequality, inadequate wages, and poverty will be discussed in the following chapters.

Collateral Reading

Bye, R. T., "Principles of Economics," chap. 2.
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U. S. Census Bureau, *Reports*.

Questions for Discussion

1. Distinguish between wealth and welfare.
2. What do you understand by economic prosperity as a social ideal?
3. Distinguish between wealth and income.
4. What evidence is there to show that the national wealth of the United States has been increasing?
5. Distinguish between real and monetary income.
6. What is the best measure of economic prosperity? Why?
7. What evidence is there to show that our national income has been increasing? Indicate the necessary statistical refinements.
8. What do you understand by the recent industrial revolution in the United States? Is the term a fair one? Why or why not?
9. What do you regard as the great basic factors in an explanation of the economic prosperity of the United States?
10. How do you explain our recent increase in industrial productivity?
11. Why is the business cycle a serious labor problem?
12. How would you determine the adequacy of the national income to permit decent standards of living to be enjoyed by all families? What are your conclusions?

Topics for Investigation

1. The national wealth of the United States and that of other countries before the World War and after it.
2. The national income of the United States and that of other countries before the World War and today.
3. The methods used by Dr. King in his study of the wealth and income of the people of the United States.
4. The methods used by the National Bureau of Economic Research in its investigation of our national income.
5. Increase in industrial production in the first two decades of the present century.
6. Recent increase in industrial productivity in the United States.
7. Changes in agricultural production and productivity.
8. Economic production and the business cycle.
9. Economic production and the general price level.
10. The stabilization of the business cycle as a labor problem.

CHAPTER V

THE DIFFUSION OF OUR NATIONAL PROSPERITY

ECONOMIC INEQUALITY AND THE IDEAL OF EQUALITY OF OPPORTUNITY

1. Economic Inequality.—National prosperity is not synonymous with individual prosperity. Because the national income is adequate in amount to permit a decent standard of living to be enjoyed by all individuals and families in the United States, it does not follow that such is actually the case. The following survey of the distribution of our national income will show that great differences in individual incomes have existed and still persist. Hence, poverty has not been eliminated and subnormal standards of living have not been eradicated, even from prosperous America. Great riches and glaring wants have continued side by side, in spite of the fact that our national income and our per capita real income have been rapidly increasing.

A striking picture of the existing economic inequality was drawn in 1928 by Professor Warne. He spoke as follows.

> The producing group hasn't sufficient income to absorb production, hence the factories of the United States are producing only two-thirds to a half of what they are capable and there is a difficult unemployment problem.
>
> There has been a one-third increase in the total income of the inhabitants of the United States since 1919, but real hourly earnings have increased only 11 per cent, on the average.
>
> Thirty per cent of the total income of the inhabitants of the United States goes to 6.4 per cent of the population. Of the wealth inherited in a year in the United States, 82 per cent goes to 5.3 per cent of the population—58.9 per cent to 11 per cent of the population.
>
> We have been over saving and under consuming.[1]

In the following chapter theories of wages will be reviewed and the course of real wages will be traced. It will be found that real wages in the long run for most groups have increased. By and large, the workers have shared in our increased prosperity, but whether they have shared proportionately in our increased productivity is a very different question.

It is also true that money wages and even real wages are higher in the United States than in most countries of the world. On the other hand, social insurance is very common in Europe, where the worker generally enjoys greater economic security, if not so high a standard of

[1] Warne, Dr. C. E., Professor of Economics of the University of Pittsburgh, in an address before the Labor College at Bryn Mawr College, July 29, 1928, as reported by the *Public Ledger*, Philadelphia, July 30, 1928.

living. Although workmen's compensation laws are common in the United States, state programs of old age pensions, health insurance, and unemployment insurance are almost unknown in this country. Although the American worker now enjoys financial compensation for industrial accidents, he is not generally protected financially against such industrial hazards as sickness, unemployment, and a dependent old age. In comparing the lot of the European worker with the American, it must be remembered that the relatively lower wages of the foreign worker are frequently offset by his relatively greater security, due to the common existence in Europe of numerous forms of social insurance which are rare, or entirely absent, in the United States.

A considerable amount of the present social unrest within the United States may be traced directly to the economic insecurity of our workers and to the striking economic inequalities which exist among the different classes of our population. Although conservative trade unionists accept the present economic system of capitalism and the wage system, they are strenuously endeavoring to raise their wages by various weapons of collective bargaining.

The socialists and syndicalists, however, contend that glaring economic inequalities will persist under any economic system which permits the institution of private property in capital. Consequently, they propose to substitute the collective ownership and operation of the instruments of production for the present system of private property and individual enterprise. The single taxer indicts the present institution of private property in natural resources, the socialist the institution of private property in both natural and artificial capital, and the communist the institution of private property in general.

Other critics of the present system concede the right to acquire and to own various forms of wealth, but they would restrict the right of an individual to inherit wealth. By means of graduated or even confiscatory taxes on the estates of deceased individuals, they would force each individual to acquire wealth for himself by his own efforts. Again, the present inequalities in income have led even conservative thinkers to advocate a progressive income tax which imposes heavy surtaxes on large incomes.

2. Unequal Division of Our National Wealth.—It was estimated at the close of the past century that seven-eights of the families in this country held but one-eighth of the national wealth and that 1 per cent of the families held more of the national wealth than the remaining 99 per cent.[1]

Over a decade later another study was made by Dr. King of the division of the wealth of the people of the United States. His conclusions

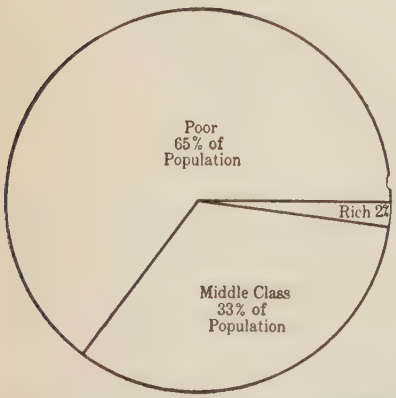
[1] SPAHR, C. B., "The Present Distribution of Wealth in the United States," p. 69, 1896.

were based on an examination of the estates of decedents in Massachusetts and Wisconsin. He divided the total population into three economic groups according to the amount of wealth possessed by each.

Dr. King found that the poor group, that is, those who left little or no wealth consisted of 65 per cent of the total population and owned but 5 per cent of the wealth of the nation. The middle classes he defined as consisting of those individuals whose estates were valued at from $1,000 to $40,000. They comprised 33 per cent of the population and owned 35 per cent of the wealth of the nation.

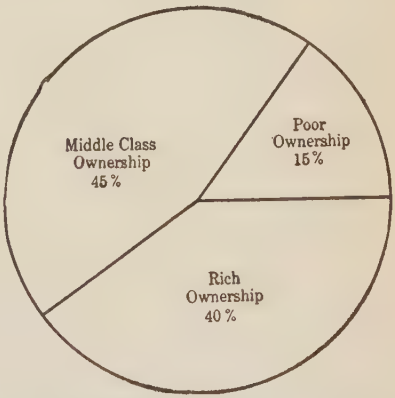
Dr. King subdivided the middle class into the upper and the lower middle classes. The lower middle class comprised those individuals whose total wealth was from $1,000 to $2,000, and they constituted 15 per cent of the total population. The upper middle class consisted of those individuals whose total wealth varied from $2,000 to $40,000, and they constituted 18 per cent of the total population.

CHART 12.—DIVISION OF POPULATION ACCORDING TO WEALTH IN UNITED STATES IN 1927



According to 1927 estimates of Dr. King, rich group includes individuals owning $50,000 or more wealth; the middle class includes individuals owning from $3,500 to $50,000 of wealth; and the poor include those individuals owning less than $3,500 of wealth.

CHART 13.—DIVISION OF WEALTH ACCORDING TO POPULATION IN UNITED STATES IN 1927



According to 1927 estimates of Dr. King, rich individuals (2 per cent of population) own 40 per cent of the national wealth; middle classes (33 per cent of population) own 45 per cent of the national wealth; and poor individuals (65 per cent of population) own 15 per cent of the national wealth.

The wealthy individuals were those whose total wealth was in excess of $40,000. Although comprising only 2 per cent of the total population, they owned 60 per cent of the wealth of the nation.[1]

A more recent statement of Dr. King described the situation in 1927 as follows:[2]

[1] KING, W. I., "Wealth and Income of the People of the United States," p. 79.

[2] KING, W. I., "Wealth Distribution in Continental United States," in the *Journal of American Statistical Association*, June, 1927.

The "rich," owning $50,000 or more of wealth, 2 per cent of the people, own 40 per cent of the total wealth of the country.

The "middle class," owning from $3,500 to $50,000 of wealth, 33 per cent of the people, own 45 per cent of the total wealth of the country.

The "poor," owning less than $3,500 of wealth, 65 per cent of the people, own 15 per cent of the wealth of the country.

3. Distribution of the National Income.—The National Bureau of Economic Research investigated the division of the national income rather than the ownership of the national wealth. It was contended that the income of individuals or social groups is of even more significance than their wealth. Although the problem of concentrated control and ownership is important, the capitalist enterpriser is merely the agent who directs production. The size of the income and the manner of its consumption are even more important than the ownership of the wealth which produces the income. Thus, a very wealthy individual may be unable to consume all his income, and he may be forced to turn much of it back into industry in the form of capital goods.

The National Bureau of Economic Research carefully studied the distribution of the national income in 1918. The income tax returns for that year were of invaluable assistance, but the investigators were forced to supplement this information by original research among those individuals whose wages were too small to necessitate the filing of any income tax returns. The results for 1918 were as follows:

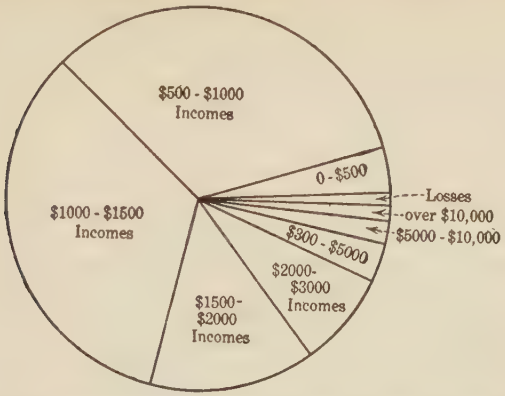
DIVISION OF THE NATIONAL INCOME, 1918[1]

Income class, dollars	Number of persons	Per-centage	Amount of income	Per-centage
Under 0[2]	200,000	0.5	$ 125,000,000	0.2
0 to 500	1,827,554	4.9	685,287,806	1.2
500 to 1,000	12,530,670	33.4	9,818,678,617	16.9
1,000 to 1,500	12,498,120	33.3	15,295,790,534	26.4
1,500 to 2,000	5,222,067	13.9	8,917,648,335	15.4
2,000 to 3,000	3,065,024	8.2	7,314,412,994	12.6
3,000 to 5,000	1,383,167	3.7	5,174,090,777	8.9
5,000 to 10,000	587,824	1.6	3,937,183,313	6.8
10,000 to 25,000	192,062	0.5	2,808,290,063	4.9
25,000 to 50,000	41,119	0.1	1,398,785,687	2.4
50,000 to 100,000	14,011	0.04	951,529,576	1.6
100,000 to 200,000	4,945	0.01	671,565,821	1.2
200,000 to 500,000	1,976	0.005	570,019,200	0.98
500,000 to 1,000,000	369	0.001	220,120,399	0.38
1,000,000 and over	152	0.0004	316,319,219	0.55
Totals	37,569,060	100	$57,954,722,341	100

[1] National Bureau of Economic Research, "Income in the United States," pp. 186 and 137.

[2] This group represents those who reported net losses for the year 1918.

CHART 14.—DISTRIBUTION OF NATIONAL INCOME IN 1918



Division of all income receivers according to size of income, according to estimates of National Bureau of Economic Research for 1918. See table on opposite page.

This study of income reveals in a very striking fashion the existence of glaring economic inequalities. Although the general price level has altered and the economic position of numerous individuals has changed, there is little reason for supposing that these figures for 1918 are not typical, and that the problem of economic inequality is less now than it was then.

In 1918, over 14,000,000 people, representing almost 40 per cent of those individuals receiving incomes, received incomes of less than $1,000; and over 32,000,000 individuals, representing 86 per cent of the total, received incomes of less than $2,000 a year. At the same time 152 individuals received incomes of $1,000,000 a year or more, and over 7,000 individuals received incomes of over $100,000 a year.

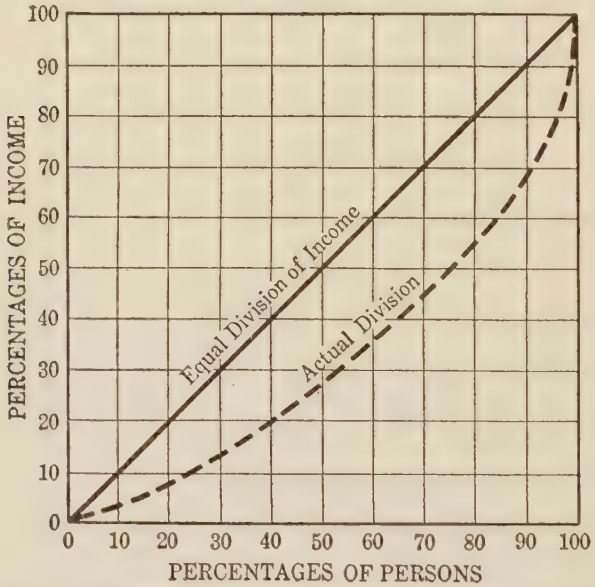
It would appear that the most prosperous 1 per cent of those receiving incomes were receiving 14 per cent of the national income, the most prosperous 5 per cent were receiving nearly 26 per cent, the most prosperous 10 per cent were receiving nearly 35 per cent, and the most prosperous 20 per cent of the total number of income receivers were receiving about 47 per cent of the total national income.

These findings indicate that while our national income is fairly large and increasing in size, it is divided among the people of the United States in a very unequal manner. The maintenance of comfortable standards of living is a problem of distribution as well as one of production. Individual prosperity and national welfare are conditioned not only by the existence of an adequate national income but also by its more equitable distribution.

Chart No. 15 on p. 104 pictures the inequality of distribution in still a different fashion. On the vertical axis is measured the percentage of income and on the horizontal axis the percentage of population. If

10 per cent of the population received 10 per cent of the national income, 20 per cent of the population, 20 per cent of the income, and so forth, the situation would be pictured by a straight diagonal line. But instead of this straight line, the actual division of the national income shows a decided bulge.

CHART 15.—EQUAL AND ACTUAL DIVISION OF NATIONAL INCOME IN 1918



National Bureau of Economic Research. Reproduced by permission from "Income in the United States," p. 141.

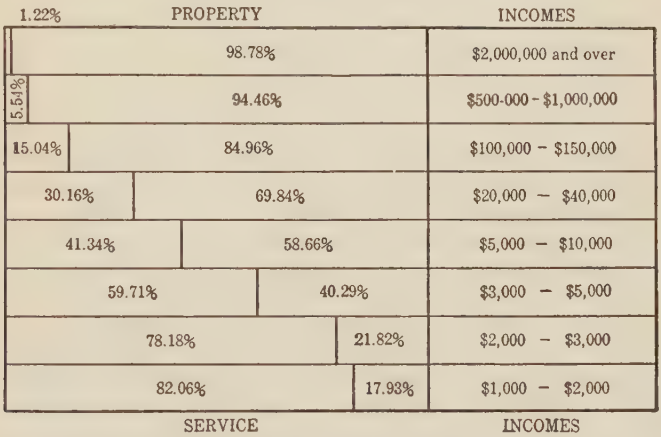
4. Unequal Diffusion of Property Income.—The unequal division of the total wealth of the United States is naturally paralleled by the unequal distribution of the national income. Not only is the total property income fairly large, but it is concentrated within relatively few hands. The large incomes of most wealthy individuals represent chiefly property incomes rather than service incomes. On the other hand, most small incomes consist chiefly of service incomes in the form of wages and salaries.

The following tabular chart expresses the relative percentages of service and property incomes of the total incomes of individuals in different income groups. It will be noted that in ascending the income groups, the role of property income becomes relatively greater and that of service income relatively smaller. In descending the income groups, the percentage of the total income represented by property becomes less and less. On the other hand, the service income tends to represent a greater portion of the total income within the lower economic groups. In going from the higher to the lower income groups, service incomes

generally become less in absolute amount, but they come to occupy a relatively more important place.

The entire situation is probably more acute than that represented by the following tabular chart, for these figures represent only those groups of individuals making income tax returns. Those individuals not making income tax returns are excluded entirely. This excluded group, for the most part, is a propertyless group.

CHART 16.—RELATIVE SOURCES OF INCOME OF VARIOUS INCOME GROUPS IN UNITED STATES IN 1920



Adapted from BOUCKE, O. F., "*Principles of Economics*," vol. 2, p. 180.

Professor Boucke's table is a condensation of the estimates given in "Statistics of Income," p. 7, published in 1922 by the Commissioner of Internal Revenue of the United States. Professor Boucke has listed separately the percentages of profits, rentals, interest and investment income and dividends in profits, all of which items have been combined in the above table to give the total percentage of the income which appears to be representative of property rather than service income. The figures are based on income received in 1920.

5. Nature of Property Income.—Economists speak of the following four factors in production, land, labor, capital, and business enterprise. The shares in distribution which go to each of these factors are respectively rent, wages, interest, and profits. It is contended that the rate of return on each of these factors is determined by its relative demand and supply forces. Thus, in a new country rents are low and interest rates and wages are relatively high. The rent which a given piece of land yields its owner is conditioned by the relative scarcity of a unit of this type of land in proportion to its desirability. Such a statement may be a partial explanation of rent, but it does not justify it, for it assumes the existence of private property rights in land.

The indirect or roundabout method of producing wealth is first to create capital and then to produce consumption goods with the aid of this capital. The Industrial Revolution increased the roundaboutness of

production and intensified the importance of capital. As capitalistic methods of production are far more productive than the direct application of labor, there is a great demand for capital. The supply of the latter depends, on the one hand, on the degree of productivity and, on the other hand, on the degree of thrift and saving.

A choice must be made between present and future goods, and this choice is reflected each year in the ratio between the capital goods and consumption goods in the national income. Each individual may spend his income or he may invest it in some productive enterprise. The interest rate depends upon the relative demand and supply of capital. The justification of interest payment, however, again assumes the individual ownership and saving of capital rather than the collective owernship and saving of capital.

Profits represent an uncertain share in the process of distribution. They arise from a multiplicity of causes, such as changes in prices and fluctuations in demand. They originate out of the present system of individual enterprise and the dynamic character of modern economic life. The justification of profits under our present economic system lies in the individual assumption of business responsibilities and the financial risks of production by these enterprisers and captains of industry.

Of recent years many attempts have been made to classify the shares in distribution as either earned or unearned incomes. This influence has expressed itself in the inheritance tax, the excess profits tax, the progressive rates of the income tax and in agitation in favor of the public appropriation of the unearned increment in land values.

Wages are generally the result of labor and human effort. Hence, they are regarded as constituting earned incomes. Inasmuch as land is a free gift of nature, rent has been attacked as an unearned income. In profits there seem to be both earned and unearned elements. Monopoly profits, however, may be antisocial and represent an unearned element.

If capital is the result of saving, interest is justifiable as earned income in the cases of the individuals who did the saving. Critics of the present economic system, however, argue that such is frequently not the case. The non-interest-receiving groups are often forced by their low wages to practice considerable abstinence, while those who have received large fortunes may live luxuriously on the interest from their investments and practice very little abstinence.

Although the origins of some large fortunes have been due to fortuitous circumstances or even to unsocial practices, the founding of many small property incomes required labor and abstinence on the part of certain people. Some individuals worked hard and saved rigorously in order to accumulate the capital which is represented by stocks and bonds. Shall society limit their right to enjoy the result of past labor and abstinence or interfere with their rights to bequeath this accumulated wealth to their

children? Again, another individual may have invested his wages in land, the private ownership of which society has condoned and even protected for centuries. Shall his income from land be called unearned and should the government attempt to appropriate rent or any portion of it?

Such questions bring us face to face with the entire theory of distribution and with comprehensive programs of taxation. Such a consideration is not the purpose of this book. The present aim is merely to point out the importance of the distinction between property and service incomes and the practical difficulties involved in making such a distinction. The government has recognized the distinction between earned and unearned incomes in its present income tax law, which seeks to reduce the burden on earned incomes at the expense of unearned incomes. The distinction between large and small incomes is also of practical as well as theoretical importance, as illustrated by progressive income taxes, graduated inheritance taxes, and excess profits taxes.

6. Nature of Labor.—Just as it is unfair to stigmatize all property incomes as unearned income, so it is equally questionable to regard all service incomes as earned income. Some salaries and wages are paid for predatory or neutral activities, and many of them represent labor expended in socially undesirable forms. It is equally false to assume that all service incomes in the form of salaries and wages vary according to the social desirability of such services or according to the human effort involved. Such considerations demand a survey of the nature and types of labor.

Labor may be defined as human effort directed toward the creation of economic commodities and services. Beasts of burden may be regarded as capital. As the term "labor" is confined to the economic activities of human beings, the strenuous and productive exertions of the lower animals cannot be regarded as labor in its economic sense. Again, the play of men or boys may be very fatiguing, but it is not labor. The motive of all play is recreation and not the creation of economic goods. Such an economic distinction is in full agreement with the common difference between the amateur sportsman and the professional. The psychologist may draw a distinction between play and labor, which is based on the individual's experience of pleasure and pain, but the economist considers the motive and the result.

Labor may be enjoyable rather than irksome, if it is not too monotonous, difficult, or prolonged. The normal individual rather relishes creative effort and productive labor. Continuous and enforced idleness is one of the worst possible punishments, as all penologists well know. Paradise has often been pictured as a delightful place of prolonged idleness in a heavenly environment, where an inexhaustible and readily accessible supply of milk and honey permit the enjoyment of infinite leisure by its angelic inhabitants. Such is the concept of an exploited and poverty

stricken people, who dreamed of an entirely opposite condition of affairs from the one under which they lived. But, the Founder of Christianity was a manual laborer, by trade a carpenter.

> This is the gospel of labor,
> Ring it ye bells of the kirk,
> The God of love came down from above
> To live with the men who work.

Modern social prophets do not deplore labor but glorify it. They demand social recognition and adequate compensation for all workers. They do not idly dream of the elimination of labor, but strenuously seek for the constant improvement of working conditions. By the reduction of excessive hours of work they aspire to a moderate amount of leisure, and by the increase of wages they seek the maintenance of decent standards of living.

7. Types of Labor.—Production is the creation of utilities, and economic producers are individuals who create utilities. Such utilities may be those of form, time, place, possession, or service, as illustrated by the labor of a carpenter, a preserver, a locomotive engineer, a store clerk, or a physician. But economic production must result in the creation of utilities. Whether or not they go through the market place is immaterial. Thus, the labor of housewives may be very productive, for they may create numerous and important utilities. Because their commodities or services are not bought or sold, these economic producers are not gainfully employed in the pecuniary sense of the term.

The distinction between productive and unproductive labor is not the same as that between socially desirable and socially undesirable labor. Again, neither of these two distinctions coincides with that between legal and illegal labor. Not all productive labor is socially desirable. Neither is all socially undesirable labor illegal. Whiskey may possess utility to one person if not to another. Its manufacture therefore, is, productive labor, because a utility is created. On the other hand, the manufacture of whiskey may be regarded as socially undesirable, and legislation may be passed to prevent its distillation and sale. Again, the manufacture of chewing gum, cigarettes, impotent patent medicines, or trashy novels may be socially undesirable but not illegal.

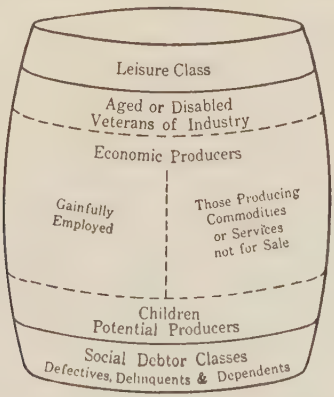
Just as land in its economic sense includes all forms of natural resources, so labor includes all kinds of human workers, whether by brawn or by brain, so long as that human effort is productive of utilities. The distinction between wages and salaries is an arbitrary social distinction rather than a real economic difference. The dignity of labor lies not in its rate of compensation, not in the amount of dirt or hardship avoided, not in the relative amount of social prestige attached to it. The true dignity of labor is to be found in its social desirability.

Labor may be that of an independent enterprise or that exerted in the employment of another. But individuals who are working for themselves, whether as corner bootblacks or as the heads of large concerns, are usually regarded as business enterprisers rather than as laborers. The term "labor" is generally used to refer to the employed group who receive wages rather than to those who are seeking to make profits on their own initiative and responsibility.

The total normal adult population of a nation constitutes its potential labor supply. There are two social groups within the population, however, who form no part of the great mass of economic producers. They are represented on the one extreme by the social debtor groups, that is, defectives, delinquents, and dependents, representing, respectively, the incompetents, the criminals, and the paupers in society. At the other extreme of the social scale there is the so-called "leisure class," which may be exempt from productive labor by virtue of the ownership of sufficient wealth to yield an income which will maintain its members in idleness.

A brilliant French critic once said of contemporary English society that it resembled a barrel of its own ale, dregs at the bottom and froth at the top, but thoroughly wholesome in the middle. This homely analogy may be expressed graphically to differentiate between the producers and the non-producers (see Chart No. 17).

CHART NO. 17.—ECONOMIC PRODUCERS AND NON-PRODUCERS



Although early civilizations were largely the product of an "intelligentsia," supported by the labor of slaves and serfs, this type of culture is a curious survival in a modern democracy. On the other hand, there are many individuals gainfully employed at pitifully small wages who should be excluded from the ranks of wage earners. Thus, rising standards of social welfare oppose the employment of children and the aged, and mothers who are endeavoring to raise young children and to maintain

a home. National prosperity requires that as many individuals as possible within our population become economic producers. Social welfare, however, demands the exclusion from the wage-earning groups of those individuals, whose age, infirmities, or maternal responsibilities make this desirable.

It should be remembered that the terms "economic producers" and the "gainfully employed" are not synonymous. Individuals may be gainfully employed, but may not be economic producers. Soldiers at war illustrate this group. Again, individuals may be economic producers, although they are not gainfully employed, that is, their immaterial services or material products are not bought and sold in the market place. Hard working housewives illustrates this group.

8. Non-competing Labor Groups.—The gainfully employed portion of our population is as heterogeneous as the total population. Thus, economists speak of the so-called "non-competing" labor groups. There is the unskilled labor group at the bottom of the social pyramid. Next comes the semi-skilled group, next the skilled and clerical groups, next the economic group represented by small business men and the professional classes. At the apex of this social pyramid are those individuals of superior capacity who are capable of planning and carrying out of large undertakings.

No such classification is absolute, but merely suggestive. In reality there are many social and economic groups which overlap and which gradually fade into each other. Again, within a democracy individuals are constantly moving up and down from one group to another. The romance of American history lies in the absence of social castes. A rail splitter became president and numerous great captains of industry rose from the ranks.

Just as there are differences in land which help to explain economic rent, just so there are human differences which help to explain wages. The important question is whether these human differences are the result of heredity or environment. Does the composition of these economic groups, which represent different degrees of economic capacity, reflect biological or social differences? Are certain individuals in society hewers of wood and drawers of water because they are mentally incapable of doing nothing else? Or is it merely that they have never received the education or inspiration to do something better? Mental and physical differences between individuals will always exist because of the biological facts of heredity and variation. Nevertheless, it cannot be assumed that all individuals in the higher income groups represent superior biological stock and the poorer groups inferior heredity. The social heredity and the social environment are as important as the physical heredity.

9. Supply of Labor and the Social Pyramid.—For an explanation of differences in wages one must turn to relative conditions of supply and

demand. The number of competent men for certain types of work is limited, either because of a lack of natural ability or because of a lack of proper training. On the other hand, the relative supply of some of the lower types of labor is great.

Population tends to grow from the bottom of the social pyramid, that is, to increase most rapidly among the lower economic groups. Although civilization is accompanied by a falling birth rate, as well as by a falling death rate, there are wide variations among different countries and among the different social groups within a given country. This social phenomenon is illustrated by the following table.

BIRTH RATE ACCORDING TO DEGREE OF WEALTH IN DIFFERENT SECTIONS OF EUROPEAN CITIES[1]

(Average Number of Annual Births per 1,000 Women from Fifteen to Fifty Years of Age)

	Number of years	Very poor	Poor	Well off	Very well off	Rich	Very rich
Paris	5	108	95	72	65	53	34
London	5	147	140	107	107	87	63
Berlin	5	157	129	114	96	63	47
Vienna	5	200	164	155	153	107	71

[1] BERTILLION, Quoted by Chatterton-Hill, "Heredity and Selection in Sociology," p. 325.

The above table of birth rates in different European countries with very different average birth rates show the common tendency of population to grow more rapidly from the bottom than from the top.

A similar tendency can be seen in our own country, where the low wage group consists largely of unskilled immigrant laborers. Their birth rate is higher and their standard of living lower than those of the native American groups. Thus, an analysis some years ago of census figures showed that in certain districts 13.1 per cent of the native white women who had been married from 10 to 20 years had born no children, while only 5.7 per cent of the women of foreign parentage were childless. Of the second generation in America 6.3 per cent of the women had no children.

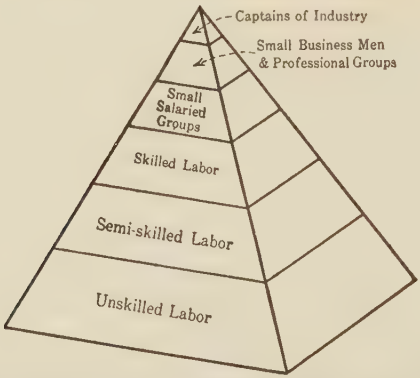
A comparison of the birth rates of the native white and the foreign-born population has shown[1] that the immigrant group is reproducing more rapidly than the native white group. The rate of increase of the poor and unskilled is more rapid than that of the more fortunate groups. According to Professor Carver,[2] wages will tend to remain low in certain

[1] See Chap. III, Secs. 3 and 4.

[2] CARVER, T. N., "Essays in Social Justice," chap. 14.

occupations so long as the workers in these groups continue to increase rapidly by large immigrations from either Europe or heaven.

CHART NO. 18.—THE SOCIAL PYRAMID



In reality there are innumerable and overlapping groups, but many of them are non-competing. The qualifications are very different for each group, and the passage from one group to another is very difficult. The above chart pictures the situation as more rigid than it really is; but it does illustrate that the relative supply of each group increases as the scale descends.

Within the same labor groups there are apt to be slight differences in wages due to the immobility of labor. These differences also may be explained in terms of the greater hazards or irregularity of employment in certain occupations, which must pay somewhat higher wages in order to attract workers from more desirable occupations within the same labor group. Again, social prestige may impel an individual to accept a "white collar job" which pays less than another occupation within the same economic group, representing similar supply and demand forces.

10. Inequality of Opportunity.—Inequalities may be of various types, but they fall into two general groups, namely, biological or inherent differences and social or acquired differences. Biological differences can never be eliminated, for variation is the law of nature. Nevertheless, eugenic progress can be made by the elimination from society of degenerate stocks within our population.

Social or acquired inequalities may be classified as economic, political, legal, and social in a narrower sense of the term. Thus, the abolition of taxation without representation and the evolution of universal suffrage represented the removal of certain political inequalities. The abolition of Negro slavery and the development of a public school system in America are illustrations of our recent advance toward social democracy. At the present time, the forces of social unrest are concentrating themselves on certain economic inequalities represented by glaring differences in opportunity, in income, and in the ownership and control of the wealth of the nation.

Equality of opportunity should not be confused with the common and illogical demand for a flat and unqualified equality. "Liberty, equality, and fraternity" was the magic phrase of the French Revolution. Although the author of the Declaration of Independence wrote that all men were created equal, he was the owner of Negro slaves. By the term "equality" he probably meant political progress toward an equality before the law of all adult white, male citizens, possessed of a certain amount of property.

From a biological point of view there is no such thing as equality. No two individuals in society are exactly alike. From a physical point of view one individual may be born with excellent eyes, another with small stature, and another with great powers of muscular endurance. Although the exact measurement of intelligence is in its infancy, it is equally certain that individuals differ as to the degree and kind of inherent mental ability. Although physical training and mental education may do wonders, nature gives us all different starting points for the race of life.

Equality of opportunity does not imply an absolute equality, but rather a conscious inequality based on biological differences. Although it assumes equality before the law, such an ideal would permit each individual in society to develop to the limits of his inherent ability and to select an occupation for which he seems best fitted. Equality of opportunity would minimize artificial inequalities, which are the results of varying social heredities and which reflect fortunate or unfortunate economic environments rather than different native abilities. Every individual would be forced to start the race of life from "scratch" and not under a handicap system. Unless individual initiative is to be killed, all participants should be permitted to progress according to the varying inherent powers with which nature has endowed them.

A flat equality, which certain writers falsely interpret as democracy, would result in injustice. Injustice also results now when positions of responsibility and high salary are filled by mediocre individuals, when men of superior ability are forced to remain in the lower economic groups because of a lack of education or of industrial opportunity. The famous "Elegy in a Country Churchyard" contains intimations of inequality of opportunity in its references to a "mute, inglorious Milton" and a "Cromwell guiltless of his country's blood." Its beautiful lines have been frequently quoted, but its social and economic connotations have been blissfully ignored.

A truly democratic society must be selective. It must maintain a differentiated educational system in which the type of education depends on the ability of the student rather than on the income of his parents. As admission to the professions requires a long period of preparation and training, a number of promising children are now forced to leave school as soon as the law permits. Although a genius will triumph over

all obstacles and rise out of blind-alley occupations, such widely advertised cases are relatively rare. Scant attention is paid to the more numerous cases of individuals of no conspicuous ability who are kept in school indefinitely by their wealthy parents and who are later placed in lucrative positions.

Equality of opportunity involves the removal of artificial obstacles, for it would compel every individual in society to stand on his own feet. On the other hand, it would frankly recognize biological differences by permitting each individual to find his own level in economic society. Such a concept may be socialistic, but it is not socialism. It does not necessitate the collective ownership and operation of industry, and it does not imply the extinction of individual enterprise. But it does imply a changing concept of private property rights. However, there exist at the present time progressive income and inheritance tax laws which would have been considered revolutionary a century ago.

Equality of opportunity recognizes the acquisitive character of modern economic society and even the institution of private property itself in a modified form. But it seeks to reward the individual's own achievements rather than the selection of his parents. It seeks to correlate more closely individual acquisition with individual production. It has been indicated that the former is not always a fair measure of the latter.

11. Economic Struggle for Existence.—It is assumed that economic competition affords a fair comparison with the biological struggle for existence. It is further alleged that the force of natural selection results in the survival of the fittest in business and the elimination of the unfit, or, rather, their relegation to the poverty group. Such an analogy has a sufficient element of truth in it to make it dangerous. The biological struggle for existence is natural, and each individual or species tends to survive or perish according to the presence or absence of favorable variations. But social evolution has produced customs and laws which may be meritorious but which interfere with the operation of the principle of natural selection.

Inheritance laws and the institution of private property place barriers between many individuals and a ruthless struggle for existence. Individuals may be supported in luxury and leisure who are unwilling or incapable of earning their own living. On the other hand, many individuals enter the economic struggle with handicaps represented by the burden of poverty and other economic inequalities of opportunity.

A comparison of economic competition with the biological struggle for existence makes economic success identical with the survival of the fittest. Is this assumption of superiority justifiable in all cases? The successful individual may have been fortunate rather than sagacious. Moreover, mere cleverness itself is not sufficient, for it must be exerted

in a productive fashion. Although economic society is competitive, the skill of the pickpocket or the strength of the highwayman is not rewarded but punished. Society has set up certain rules of the game and has attempted to eliminate some of the more predatory methods of gaining a living.

At the present time, there are numerous neutral or socially undesirable ways of making economic profits. It is difficult in a dynamic society for the forces of social control to keep abreast of changing conditions and to express themselves immediately in an adequate fashion. It takes time to arouse public opinion and to crystallize it into effective legislation. In the meantime, clever individuals may create fortunes in socially unproductive ways. Illustrations are monopoly profits, gambling on the stock exchange, and speculation in real estate values. Economic success does not always measure accurately economic productivity along socially desirable lines.

It is difficult to answer the question as to what limits should be set to a man's ability to acquire wealth. It is impossible to measure the productive contribution of the discoverer of anaesthetics for surgical operations or of the inventor of the steam engine, the telephone, or the radio. One would hesitate to set any limits to the rewards of such scientists and inventors. Indeed, these individuals have rarely received compensation commensurate with their social or economic contributions. The real fortunes represented by such discoveries and inventions have often gone to the financial promoters rather than to the inventive geniuses themselves. On the other hand, as has been indicated, numerous fortunes have been created in uneconomic or unsocial fashions. In attempting an answer to the old question, "How much is a man worth?" we should insist merely that his individual acquisition be determined by his economic or social productivity.

Although the profits motive is powerful, it is by no means the only strong incentive. The socialists, for illustration, would substitute social esteem and popular recognition for the sordid profits motive. Equality of opportunity, however, does not seek to substitute the laurel wreath for the private fortune as an economic stimulus, but it does seek to reduce the gains of unscrupulous cleverness or the mere accident of birth and to increase the material as well as the immaterial reward of individual productivity.

12. Antiquity of Economic Inequality.—Some causes of the concentration of wealth have been common to different countries and to various ages in the world's history. Thus, a very interesting comparison may be drawn between American history about the middle of the past century and that of England several generations earlier. In both cases industrialization was accompanied by the foundation of great fortunes and by the existence of glaring economic inequality.

Indeed, economic inequality is far older than modern industrialism. The coming in of capitalism and the exploitation of the new territories at the beginning of modern times were also accompanied by the rise of merchant princes and the foundation of huge fortunes by the *conquistadors* of the New World.

If the student of history cares to go still farther back, he will find that economic inequality and the concentration of great wealth in a few hands is even older than capitalism. For this reason social unrest was most acute in the last few decades of the Roman Republic. Devoted martyrs like the Gracchi gave their lives in an attempt to secure public reforms which would mitigate the increasing economic inequality and the growing social unrest.

Dr. Ferrero, a brilliant Italian historian, has drawn a striking comparison between modern America and ancient Rome. Economic expansion was accompanied in both cases by growing inequalities in wealth. Individual poverty likewise persisted in spite of the growing national prosperity. Such comparisons are interesting although not altogether scientific, because history never repeats itself in exactly the same way.

13. Some Causes of the Concentration of Wealth.—Three forces which have been stressed as making for economic inequality in the United States are monetary legislation, methods of taxation, and methods of railroad construction and finance.[1] Unwise monetary legislation has led to inflation and rising prices. A rising price level has made possible profiteering on the part of a few, while the great mass of people have suffered from the increased costs of living. The use of indirect rather than direct taxes, the failure to apply the principle of progression in taxation and a reluctance to tax heavily the estates of wealthy decedents have favored the development of economic inequalities.

The large governmental subsidies granted to the railroads and the capitalization of exclusive franchise rights granted to various public service corporations were also the sources of large private profits. Nevertheless, it should be remembered that the railroads were originally regarded as a speculative industry. New industries, if successful, are generally accompanied by the growth of large fortunes. This may be illustrated by the recent development of the automobile and the motion picture industries. Perhaps the incentive of large profits has been necessary to attract capital into the new and risky ventures which are characteristic of a dynamic and individualistic economy.

Among the additional causes of large fortunes and the concentration of wealth may be mentioned the following: the unearned increment of rapidly increasing land values, especially in our growing cities; the trusts and industrial consolidations; wars which are accompanied by an inflation of the currency, war-time industries, and high profits; the development

[1] Spahr, C. B., "The Present Distribution of Wealth in the United States."

of trustee devices which permit the existence of the "dead hand" and the continued concentration of ownership; and, finally, what may be termed "sheer economic inertia," that is, the failure to make use of a taxation program or other devices designed to reduce or to prevent the increase of economic inequality.

On the other hand, there are a number of forces which make for the more equitable diffusion of wealth. Among them are education for the masses; the public control of corporations; changes in taxation, such as progressive income and inheritance taxes; the development of the idea of property as a social trust; profit sharing and cooperation; sound currency with the reduction of inflation; public ownership or, at least, the effective regulation of public utilities; labor organizations; miscellaneous institutions in the interest of the economically weaker elements of the community; and saving institutions and insurance, particularly social insurance.[1]

Any such list of causes of economic concentration and of methods for the greater diffusion of wealth is neither final nor complete. The student should regard it merely as a starting point for his own thinking on the subject.

14. Effects of Economic Inequality.—There are a number of reasons why less inequality of income is desirable. They may be classified as economic, social, political, and philosophical considerations.

Economic production is determined by effective demand rather than by mere desire. Economic demand may be defined as a desire which is accompanied by sufficient purchasing power to make itself felt. Only if incomes were evenly distributed throughout society could it truthfully be said that production is determined by the wants of all producers. Under the present regime, however, glaring economic inequalities make it profitable for producers to satisfy the slightest whim of the wealthy and to ignore the pressing needs of the poor.

Demand rather than desire determines the character of production and even the channels of exchange. Thus, during a recent famine in China that country exported eggs to America. The needs and desires were greater in China, but the effective, economic demand was greater in the United States. Again, famine-stricken Ireland exported grain to England.

Within a nation the same situation exists. The rich may consume delicacies while the poor lack the necessities of life. Pleasure yachts may be produced at a time when there is a serious housing shortage. Thus, the quantitative distribution of the national income determines its qualitative character.

Many individuals who are not socialists accept their economic ideal of the production of necessities for all before luxuries for a few. Although

[1] Ely, R. T., "Evolution of Industrial Society," pp. 478–485 inc.

this ideal requires the reduction of economic inequality, it does not imply a flat equality, nor the collective ownership of the instruments of production. It is socialistic, but it is not socialism.

The demand for necessities is relatively stable. It can be anticipated with a smaller margin of error than can the demand for luxuries. Hence, this change in the character of our national real income would lessen some of the wastes of our present individualistic economy. Expensive changes in fashion might be reduced, if the income of all consumers were more nearly equal.

The principle of diminishing utility states that the enjoyment derived from the consumption of a particular economic good declines after a certain point has been reached in the consumption of increasing units of that good. The small boy eating hot cakes may have a miraculous capacity, but sooner or later the point of diminishing utility is reached. Likewise, an additional automobile has less want-satisfying power to its owner than the first.

The wasteful operation of the principle of diminishing utility is mitigated to some extent by the great variety of economic goods which we now enjoy. When the utility of more clothes or another automobile becomes small, the wealthy individual can spend his income in other ways. Nevertheless, the dollar of the poor man will be spent for goods representing more utilities to him than the expenditure of the dollar of the rich man, whose most pressing needs have already been met. Hence, the more equitable distribution of purchasing power would result in an increase in consumption utilities without an increase in the national income.

Great differences in income are productive of social instability as well as of economic waste. Inadequate wages result in subnormal standards of living. At the same time other individuals are indulging in luxurious leisure. Poverty and riches existing side by side have always been a fruitful cause of social unrest. The palaces at Versailles were erected by peasants who lived in huts. In modern America magnificent stables for horses and commodious kennels for dogs throw their shadows across the miserable houses in which human beings exist. Each city has both its spacious country clubs and its slums with crowded tenements.

Economic inequality also results in social stratification and the formation of non-competing economic groups. Status represents a condition fixed by birth, as compared with the freedom to choose one's own occupation. Although slavery, a caste system, and inherited titles do not exist in modern America, the inheritance of large fortunes permits the persistence of economic and social classes. For many individuals in the poorer classes equality of opportunity is a far-distant ideal.

Economic inequality may have serious political effects. The existence of large fortunes may result in the corruption of the governmental

machinery and in the exercise of an undue influence on public officials. The open or secret miscarriage of justice may result. A great national income and its flagrantly unequal distribution may convert a democracy into a plutocracy. Such was the evolution of ancient Rome.

> Ill fares the land, to hastening ills a prey,
> Where wealth accumulates and men decay.

There are also philosophical objections to the inequality of income. Upon the basis of abstract justice why should one individual receive an enormous income and another individual a pitifully small income? Let us assume that both are economic producers and that each individual contributes to the national income according to his individual ability and opportunity. Neither one's environment nor one's heredity is of his own making. Prince and peasant have merely been dropped into different social surroundings. The fact that one individual is born with an excellent physical constitution or with exceptional mental ability, whereas another individual is born with some physical defect or with feeble-mindedness, is no merit or fault of his own.

Communists have adopted the slogan of "From each according to his ability and to each according to his needs." Such a simple analysis of production and distribution affords an excellent ideal, but it is beset with numerous practical difficulties and objections. If one's income depends upon the size of one's family, there is an economic incentive for the production of children rather than of economic goods. Professor Carver points out the danger of this "spawning" process in his "Essays in Social Justice."

15. Private Fortunes as Public Trusts.—It has been contended that the manner of consumption of one's income is as significant as its size and source. Thus, Mr. Carnegie in his "Gospel of Wealth" developed the ideal of great fortunes as public trusts. His own life was simple and his tastes were frugal. He returned to society a large portion of his income in the form of free libraries. Mr. Rockefeller has likewise donated a large portion of his fortune to educational work and to medical research. It is difficult to overemphasize the social value of such wise donations. Society might not have done these things of its own accord. They represent collective consumption on private initiative.

Such a policy, however, has been criticized as undemocratic in spite of its generous motive and wise purpose. As it represents private philanthropy rather than public expenditure, it has even been stigmatized as benevolent despotism or capitalistic feudalism. Such civic donations divert attention from the unsocial origins of these large fortunes in monopoly profits. The consumers have paid the bills in the purchases of these products, but they have not been permitted to say how the funds should

be spent. Such have been the criticisms of rich men's philanthropy and the indictment of large fortunes as public trusts.

Moreover, not all wealthy individuals can resist the temptation to extravagance, idleness, and dissipation to which large fortunes make them susceptible. Their large incomes, unlike those of Mr. Carnegie or Mr. Rockefeller, may force the productive process into the making "illth" rather than wealth. The result of such economic inequalities may be the wasteful rather than the useful consumption of large fortunes.

16. Conspicuous Consumption.—Imitation is a powerful force in society, and each social group looks longingly at the standard of living of the next higher income group. Sometimes, the standard which is set by the so-called "social set" is as shallow as it is wasteful. Its purpose may be the mere display of wealth with the consequent inference of superiority. Economic success, which must be demonstrated by ostentatious consumption, gratifies the same human instincts of self-assertion which were formerly indulged in by military success on the field of battle.

Professor Veblen termed the situation, which he thus described, the "conspicuous consumption" of the "leisure class." The possession of a given commodity or the consumption of a certain service may not be indulged in because of its utility to the consumer but because of the social prestige which accompanies it. Thus, a given individual may not enjoy automobile riding, he may rather relish the exercise of walking; nevertheless, the possession of a limousine is an indication of prosperity. Going to the opera may gratify no love of music, but it does afford the opportunity to wear expensive clothing and jewelry. In this manner the tired business man may be considered one of the financial, if not one of the cultural, elite.

From the elaborate menus of certain "exclusive" clubs and hotels today, it is not a far cry back to the conspicuous consumption of the famous Roman banquets. In the background of both pictures is the sinister shadow of the bread line and the gatherings of the unwashed masses in the city streets.

Simplicity and frugality in the consumption of income by the wealthy classes would help in the formation of national ideals of thrift and economy. Misdirected production would not be so apt to occur. Poverty on the one hand and conspicuous consumption on the other call attention to the existence of economic inequalities. Excessive hours of work by certain economic groups in contradistinction to the continuous leisure enjoyed by other groups is another great source of social unrest.

17. Summary.—National prosperity does not necessarily imply individual prosperity. Economic welfare is conditioned not only by increased production but also by a more equitable distribution of our national wealth and income. Studies of the division of our national wealth reveal that a relatively large portion of our population is nearly

propertyless, and that a relatively small portion of our population owns a very large amount of our national wealth. The distribution of our national income also reveals glaring economic inequalities.

Wages, rent, interest, and profits represent the shares in distribution which go to the following factors in production, or their owners; namely, labor, landowners, capitalists, and management. A distinction is often drawn between service incomes in the form of wages and salaries and property incomes in the form of rent, interest, and profits. The former are sometimes called earned income, while the latter have been stigmatized as unearned income. Property incomes are fairly large, and they are unequally distributed among the people of the United States.

Labor may be defined as human effort directed toward the production of wealth. Productive labor results in the creation of utilities, but unproductive labor does not. Labor may also be classified as socially desirable labor and socially undesirable labor. The working population may be divided into numerous non-competing groups, such as unskilled labor, semi-skilled labor, skilled labor, clerical labor, that of professional and business men, and, finally, that of great captains of industry. Passage from one group into a higher one is restricted by the biological fact of inherent differences in individual ability and by the social factor of acquired differences represented by variations in education and opportunity. The relative supply of labor is greatest in the lower groups, whose birth rates are high and whose wages are, therefore, relatively low.

Society may be divided into economic producers and non-producers. Non-producers are represented on the one hand by a wealthy leisure class and on the other hand by the social debtor groups made up of delinquents, defectives, and dependents. Producers include those who are gainfully employed and those whose commodities and services are not for sale. Social unrest arises from the fact that certain individuals with great social responsibilities are forced to become economic producers and to enter the ranks of the gainfully employed, while others with slight social responsibilities are not required to become economic producers.

Economic inequalities may be inherent or biological, or they may be acquired or social. Biological inequalities may be reduced by a program of eugenics, but they can never be eliminated. Acquired inequalities may be social, economic, political, or legal. Equality before the law is an ancient Anglo-Saxon tradition, but economic inequality is an important modern, as well as ancient, fact.

Equality of opportunity is not to be confused with economic equality. Equality of opportunity merely implies an equal chance to become unequal, that is, a similar opportunity to all individuals to develop to the limits of their varying inherent abilities. Equality of opportunity does not decrease competition. It merely makes it a more accurate

test of individual ability by the elimination of acquired advantages or disadvantages.

Economic success has often been interpreted as victory in the economic struggle for existence. But the possession of great wealth may be the result of inheritance rather than of individual acquisition. Again, individual acquisition is not an absolute test nor a perfect measure of economic production. Great fortunes may have been acquired by fortuitous circumstances, over which the individuals themselves have had little control. Again, they may have been acquired by unsocial if not illegal methods. A great economic ideal is the adjustment of individual acquisition to individual production along socially desirable lines.

Among the chief causes of economic inequality and large fortunes are the dynamic character of modern economic life and the present system of individual enterprise. Inflation, wars, trusts, industrial consolidations, and rising land values are some specific causes of great fortunes. Among the chief causes of their persistence are the unmodified right of inheritance, the trusteeship device, the failure to tax large incomes, inheritances and excess profits at progressive rates, the failure to absorb at least a portion of the unearned increment from land, and the inability effectively to regulate trusts and public utilities.

Economic inequality has serious social and economic effects. It makes impossible the production of necessities for all before the production of luxuries for the few. Hence, it reduces the total utility experienced by American society in the consumption of our great economic prosperity. Glaring economic inequality is represented on the one hand by the miserable living conditions and the high death rate of a large portion of our population, and on the other hand by the wasteful and conspicuous consumption of a fortunate few. The striking social contrast between the very rich and the very poor is an important cause of industrial unrest. It is mitigated to some extent, on the part of some wealthy philanthropists, by the new concept of large fortunes as public trusts.

Collateral Reading

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Questions for Discussion

1. What evidence do you have of the unequal division of the national wealth of the United States?
2. What evidence do you have of the unequal distribution of our national income?
3. Distinguish between property and service incomes. Do you regard the terms unearned and earned incomes as fair? Do they represent the same distinction as that between property and service incomes?
4. Distinguish between productive and unproductive labor and between socially desirable and socially undesirable labor. In what respects are these distinctions similar and dissimilar?
5. What do you understand by non-competing groups and by the labor pyramid?
6. Enumerate and illustrate the different types of inequality.
7. Distinguish between economic equality and equality of opportunity.
8. Is individual acquisition proportionate to individual production? Why or why not?
9. Outline some causes of economic inequality.
10. Outline some forces which tend to reduce economic inequality.
11. Indicate some important economic, social, and political effects of economic inequality.

Topics for Investigation

1. Distinguish between earned and unearned income in the income tax law of the United States.
2. Veblen's concept of conspicuous consumption and the leisure class.
3. Cairnes' analysis of non-competing groups.
4. The analogy between natural selection in the struggle for existence and business success in economic competition.
5. The origins of large fortunes.
6. The taxation of estates and inheritances in the United States and abroad.
7. Wars and millionaires.
8. Growth of American cities and the unearned increment of land values.

CHAPTER VI

THEORIES OF WAGES AND THE COURSE OF REAL WAGES

LABOR'S SHARE IN OUR INCREASED PROSPERITY

1. Wage System.—In a primitive economic society the producer and the consumer were identical, that is, each producer consumed chiefly his own products. There was little specialization and there were no organized markets for either commodities or services. With relatively abundant natural resources and in the almost complete absence of capital, there were few problems of value in exchange and almost none of distribution.

Capitalism implies not merely the extensive use of tools, machinery, and other forms of capital goods, but also the institution of private property in capital and other forms of economic wealth. Again, capitalism implies individual enterprise and private initiative, rather than the collective ownership and operation of the instruments of production. Competition and freedom of contract are also involved. Markets exist, exchange flourishes, and price is the unconscious automatic force which regulates production. All of these factors, and more, are necessary to a complete understanding of capitalism and the wage system, both of which developed together and are still inseparable.

Industrialism, the most recent phase of capitalism, involves the factors of power machinery, the factory system, increased territorial specialization, and the development of world-wide markets. Although the wage system antedated the Industrial Revolution, it was not until then that minute division of labor developed and that capital assumed its present forms and importance. As power machinery replaced the craftsman and the factory system supplanted the domestic system, there came into existence a group of machine owners and a group of machine operators. The workers lost the ownership of the instruments of production and the control of their conditions of employment. The Industrial Revolution produced a different economic and social line of cleavage, as well as a new class consciousness. These factors have colored the modern concept of the wage system.

The term "wage system" is very vaguely used and is difficult of exact definition. It is essential, however, that we note some of its chief characteristics. Under the wage system the enterpriser determines the course of production and brings together the various factors in production, accepting the financial responsibility, in part at least, for his economic

venture. As production is roundabout and in anticipation of demand, the enterpriser must own or borrow the capital from which he makes advances to the workers in the form of wages. Not only does he direct the economic process, but also he advances wages to labor as its share of the final product.

The enterpriser's reward in the form of profits is relatively uncertain, although often very large. The tendency of losses to balance profits is sometimes overlooked by labor leaders. Again, the enterpriser is under a constant pressure to meet the price competition of the market. On the other hand, the worker as well as the employer shares the risks of industry. Some of the physical and financial risks of labor, such as unemployment, industrial accidents, and a dependent old age, will be treated in the following section of this work.

Although the wage system now involves the ownership of the instruments of production by the capitalist class, it does not follow that the employee is completely dependent on the employer as to wages, hours, and conditions of work. Although the wages of many groups of workers are woefully inadequate to maintain a minimum standard of living for their families, the organization of labor has developed in response to its bargaining disadvantages. Again, the employer's ownership of the instruments of production and his control of the conditions of production have been modified, not only by the development of effective collective bargaining among the workers but also by the inauguration of such recent devices as employee ownership of stock and by employee representation in industry.

It is impossible in this brief survey of some social problems of industry to discuss in detail particular wage theories or general theories of distribution. It is hoped that the reader has previously had a general course in economic principles or, if not, that he will at this point betake himself to a general text on economic theory. In order that this chapter on wage theories and the course of real wages be thought-provoking, the student should try to square these inductive and quantitative findings with his general economic principles. The course of real wages should be analyzed in the light of the various wage theories, only a brief mention of which can be made here.

2. Subsistence Theory of Wages.—One of the earliest theories of wages is that familiarly known as the "subsistence theory," or, as the socialists termed it, the "iron law of wages." This theory is commonly ascribed to David Ricardo and the pessimists, whose gloomy forebodings made Thomas Carlyle term political economy the "dismal science." The subsistence theory of wages was the product of the principle of diminishing returns from land and the Malthusian law of population. The niggardliness of nature and the procreative instinct of man were regarded as making it impossible for wages in the long run ever to rise

above a mere subsistence level. As population increased the demand for land became greater and rents increased. As rents increased, profits fell. Hence, the landlord benefited at the expense of the capitalist. Although money wages rose, real wages tended to remain fairly constant at a subsistence level.

The Malthusian law of population and the law of diminishing returns from land are correct when stated with proper qualifications and as general tendencies. But there are also other tendencies, such as progress in the arts, which increase productivity, and a rise in standards of living, which is accompanied by a decrease in the birth rate. Again, the great abundance of natural resources in America and the relative scarcity of our population have made the Malthusian spectre a rather remote one in this country. The exhaustion of free land and the absence of a frontier are relatively recent developments in the United States. Again, our rapid improvements in the arts of production have probably offset or deferred the sinister consequences of the principle of diminishing returns from land. Since labor instead of land has been the scarce factor in this country until rather recently, the subsistence theory of wages, even if correct as an economic tendency, did not come into practical application in the United States.

The subsistence theory of wages has sometimes been interpreted to mean not a bare physical existence in the sense of just sufficient food to keep the worker alive and to permit him to reproduce of his kind, but as the current minimum standard of living. But the very qualification of a minimum standard of living makes the subsistence theory of wages an expansive concept and not a rigid one, as its critics supposed it to be. Just as higher wages made for higher standards of living, so a rising standard of living makes for higher wages, either directly by individuals refusing to work for less than their full marginal product or indirectly by the limitation of population.

3. Wages Fund Theory.—The subsistence theory of wages was modified by J. S. Mill and his contemporaries into what has been termed the "wages fund theory." According to this concept there is a wages fund, which is the quantity of available working capital. The general rate of wages was regarded as a mere ratio between capital and population. The wages fund theory was later refined by substituting for capital only that part of the capital available for advances to labor, chiefly food, and by substituting for population only that portion of it which consisted of laborers. But with such qualifications the wages fund theory becomes a mere truism, which states only that the workers get what they get.

A number of criticisms were leveled against the wages fund theory. It was denied that capital constituted the sole demand for labor and that the relative amount of working capital determined wages. Henry George

and Francis Walker denied the existence of a rigid wages fund and refused to believe that wages depended on the ratio between capital and labor. Instead, they contended that wages were determined by current income, rather than by the stock of capital in existence.

Cairnes, a disciple of Mill, and himself an advocate of the wages fund, pointed out the heterogeneous character of the laboring population and the existence of various non-competing groups. The supply and demand forces for each of these divergent groups are very different. If this is true, then perhaps it is incorrect to speak of a general wages fund or even of a general rate of wages except for members of the same labor group. Nevertheless, Cairnes was firmly convinced of the existence of a wages fund, of the dependence of wages in general on the supply of available capital, and of the futility of labor organizations to secure increased wages except at the expense of some other group.

4. Marginal Productivity Theory.—The commonly accepted wage doctrine today is the marginal productivity theory, or perhaps the specific productivity theory. The specific productivity theory contends that each factor in production, *e.g.* labor, receives in distribution a share, *e.g.* wages, which is equivalent to just what it produces. The specific productivity theory makes distribution a valuation process of the factors in production and seeks to isolate from the joint product of all factors in production the specific product of each one. The specific productivity theory has been interpreted as a justification of the present economic system, as each factor gets just what it produces.

The marginal productivity theory likewise makes distribution a valuation process of the factors of production, but it cannot be regarded as a justification of the present system. It does not claim that each factor gets just what it produces; nor does it profess to be able to isolate the specific product of any one factor.

The marginal productivity theory, in brief, contends that each worker will receive in wages an amount equal to the marginal product of his labor group. This marginal product can be estimated by measuring the loss in production which results from the withdrawal of one worker from a particular combination of land, labor, capital, and business enterprise. The theoretical marginal worker measures the wages of his group.

The particular combinations of factors in production are determined by the value of each factor and by the value of the finished product. Plentiful factors will be cheap and will be used in abundance, while scarce factors will be dear and will be used sparingly. The values of factors and products are determined simultaneously, and the values of commodities and services are determined similarly. There is an infinite series of margins determined by an infinite and interdependent series of supply and demand forces.

The wages of a worker in a particular labor group are determined like the value of an economic good, that is, by its relative supply and demand forces. If the supply is great, relative to its demand, the marginal product of that type of labor will be low. If the reverse is true, wages will be high. Compare the relative supply and demand forces for ditch diggers with those for carpenters, bookkeepers, or surgeons. The answer to the problem of low wages, say some advocates of marginalism, is not a minimum wage law, but the reduction of the supply of that type of labor which is cheap, relative to other types of labor, relative to other factors in production, and relative to its particular demand. Hence, reliance is placed on a lowered birth rate, a restriction of immigration, or a program of free education, by means of which promising individuals in the lower and crowded economic groups are permitted to move outward and upward into the less congested and more remunerative occupations.

There are several modifying influences on the marginal productivity theory. Although they do not invalidate its truth, they render difficult its practical application. In the first place our intricate division of labor conceals the product of labor or even of a laborer, the exact measurement of which is difficult. In the second place, the employer stands between the worker and the ultimate consumer. The joint product of many workers must pass through the hands of many employers and merchants before it is finally sold as finished goods. The cooperative, specialized, and indirect character of modern industry renders it impossible to isolate the specific product of labor. It also makes difficult the measurement of the marginal product of a given type of labor, by the addition or subtraction of one unit of labor from a given combination of factors in production.

While economists have questioned the validity of the specific productivity theory and the practicability of the marginal productivity theory, labor leaders have indicted both. The specific productivity theory has been regarded as an academic attempt to justify the present economic system. The marginal productivity theory has been stigmatized as a mere commodity theory of wages which evaluates the labor of human beings in the same manner as that of a piece of machinery or a barrel of potatoes. But how else can one attack the problem of wages, which is essentially a valuation problem, except with the supply and demand blades of the scissors of value. Moreover, the dislike of a given theory is no proof of its falsity. The calling of names does not dislodge one from a reasonable position well buttressed with true facts and sound logic.

5. Bargaining Theories.—On the other hand, economists will do well to consider how far the force of competition has free play in the determination of the value of services as well as of commodities. A strong association of employers and a powerful labor union may be so monopolistic in character as to render the assumption of free competition a mere fiction.

Under any circumstances one must consider the relative bargaining power of a labor group as well as its supply and demand forces.

Critics of the marginal productivity theory have pointed with the one hand to the great gains in the wages of strongly organized unions, and with the other hand to the bare subsistence wages of unorganized groups. But such an appeal to the facts does not overthrow the marginal productivity theory, for the organized groups of workers may have secured their higher wages by an artificial restriction of their numbers by such devices as the closed shop, a limitation of apprentices, and the restriction of immigration. Again, theories are mere statements of general tendencies, which may be opposed or frustrated by the operation of other forces. Thus, wages are the resultant, not only of the relative supply and demand forces of a given type of labor, but also of its relative bargaining powers. In addition, there is the omnipresent force of inertia, represented by the institutionalization of a given wage which makes adjustment difficult.

If the workers are unorganized, ignorant and immobile, whereas the employer is powerfully entrenched, the clever bargainer may succeed in paying that type of labor less than its marginal product. The employer himself may pocket as additional profits the difference between the marginal product and the actual wage. This is the situation in certain sweated trades in which the subsistence wage is a reality. On the other hand, if labor is well organized, it may be able to bargain so successfully that the employer will be forced to pay in wages the full value of the marginal product of labor. Again, the organized workers may be successful in raising their marginal product and hence their wages by an artificial limitation of the supply of that type of labor.

Perhaps it is safe to say that the marginal product merely fixes an upper limit to wages. It is obvious that an employer will let a man go rather than pay him more wages than the value of his marginal product. On the other hand, where the workers are unorganized, an employer will be able to pay his employees as much less as they are willing to take. Thus, in spite of the existence of a real or theoretical marginal product for clothing workers, the sweater made an individual wage bargain with each worker. This actual individual wage varied indirectly with each vorker's necessities and directly with his or her bargaining power.

The bargaining theory assumes that employers and employees are opposed to each other in a market in which their forces are about equal. Consequently, wages are determined in a manner similar to the determination of other values, that is, there is no condition of great ignorance or weakness on either side. The estimate of the laborer is a resultant of the utility of the reward and the disutility of the work, and the estimate of the employer depends on the increase in the value of the product. Between these upper and lower limits of seller and buyer, respectively, wages are determined by the relative bargaining power of the two parties

to the wage contract. According to this theory, the employer's estimate is an approximation of the marginal product of labor. It represents a maximum beyond which he cannot go. How much below this point he will go depends on the relative bargaining position of the two parties.

In reality, the bargaining power of the two parties to the wage contract is not equal but vastly different. Because of their inferior knowledge of the market, their lack of mobility, their inferior resources, and their lack of effective organization, most labor groups are inferior in bargaining power to the employers.

6. Other Theories of Wages.—Professor Hobson has attempted to replace our pecuniary values of industry with what he terms a human valuation. He has sought to express social rather than monetary costs of production. His argument, which is inspiring rather than convincing, departs from the relative scarcity approach of marginal productivity. His theory of wages is that the minimum wage of labor is a sum sufficient to maintain the laborer in working efficiency and to permit him to rear a family in decency and comfort. But the wages of many workers are insufficient to do this, as will be demonstrated in the following chapter. Hence, Professor Hobson has given us an ideal picture of what should be rather than an exact picture of what is. Professor Douglas in "Wages and the Family" discusses the same ideal of a family wage and proposes an interesting modification of our present system.

Karl Marx, the founder of socialism, developed the famous labor theory of value. Accepting the subsistence theory of wages of the classicists, he contended that the employer received a surplus value by selling the products of labor at their use value, paying the laborers a mere subsistence wage, and keeping the difference himself. In his economic interpretation of history, Marx further contended that the lot of the workers was becoming steadily worse. He believed that the general course of real wages was downward under conditions of modern capitalism.

Although it is true that the conditions of labor were probably worse immediately after the Industrial Revolution than immediately before it, it is not true that in the long run the laborer is worse off. On the contrary, his lot has improved over the course of centuries. It will soon be demonstrated that the general trend of real wages has been upward, in spite of certain periods of temporary retrogression.

Other theories of wages have been constructed on a cost of living basis. The thought behind such a concept is that money wages should keep pace with changes in the costs of living. Such an analysis is not a theory of wages at all. It assumes a given wage for a given group of workers and then merely endeavors to maintain the same real wages by adjusting money wages to changes in the general price level and the altered costs of living. This theory of wages has been seized by workers

in periods of rising prices to secure increases in money wages and by employers in times of falling prices to justify cuts in the money wages of their employees.

In addition to the concept of steady real wages and an adequate family wage, labor leaders are now advancing the theory of a social wage. To what extent is labor sharing in the technological advances of the past decade? The problem of social wages is not merely to advance money wages in proportion to increases in the price level, but to increase real wages in proportion to the gains in industrial productivity. Such a concept of wages is dynamic rather than static.

7. Trends of Shares of the National Income.—The study of wealth and income by Dr. King[1] attempted to divide the national income into four parts representing the four factors in production. It was contended that the rent element, representing the income to land owners, rose steadily in the years from 1850 to 1910. Its percentage of the total national income, however, was fairly constant, and constituted somewhat less than 10 per cent of the total. Although rents increased, the rent share of the national income did not display a tendency to grow disproportionately. Thus, Dr. King's study affords little proof of a tendency of rent to absorb a constantly increasing share of the total national income, at least in the United States between 1850 and 1910.

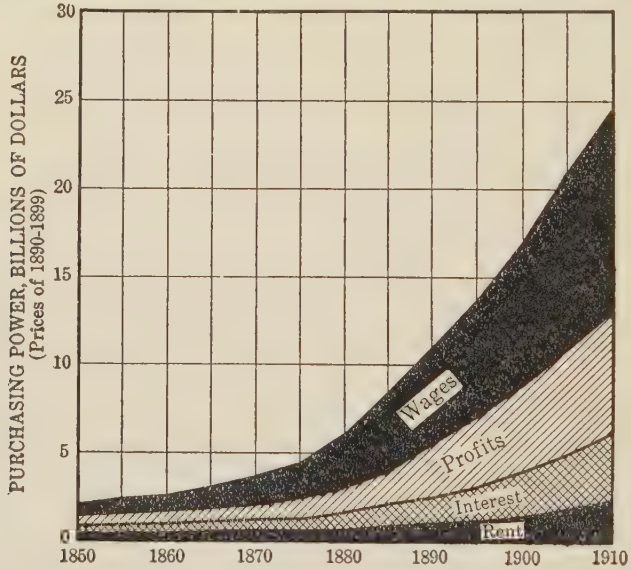
Interest or the return from artificial capital increased in volume as did all the other shares, and its percentage of the total national income varied during these 60 years from slightly over 10 per cent to slightly over 20 per cent. Although fluctuating more than rent, there was no decided tendency of the relative share of the national income going in interest to increase or to decrease. Although the supply of capital increased enormously, new demands for it were continuously experienced. Although interest rates varied from time to time and from place to place, the interest share of the total national incomes showed no long run trend to decrease or to increase.

Profits varied more than any other single share and fluctuated from a low point of 20 per cent of the total national income to a high point of 40 per cent. Although increasing in absolute amount, its relative proportion seemed to decline. Economists have regarded profits as the uncertain and residual share. Dr. King's study testified as to the fluctuating character of profit and also as to its downward trend in the United States between 1850 and 1910. In a relatively new country greater incentives must be offered to attract capital and business enterprise. As the country matures some of these uncertainties disappear. High profits are no longer necessary to induce business enterprise. Again, it would seem that rising prices are favorable to profits, and a falling price level unfavorable to profits.

[1] KING, W. I., "Wealth and Income of the People of the United States."

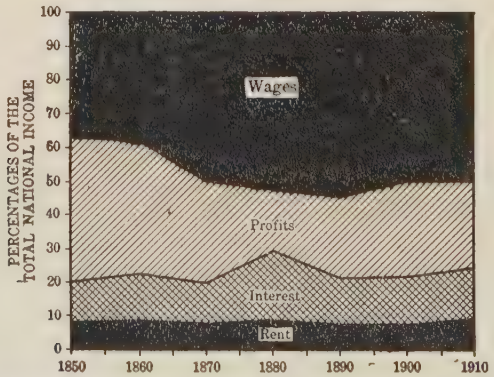
Dr. King's investigation of wages was based on the decennial census reports and the price studies of the United States Bureau of Labor. He found that wages varied from less than 40 per cent of the total national

CHART 19.—GROWTH OF THE NATIONAL INCOME AND ITS DISTRIBUTION (1850–1910)



KING, W. I., "Wealth and Income of the People of the United States," p. 159. *Reproduced by special permission of The Macmillan Company. Copyrighted*, 1915.

CHART 20.—RELATIVE CHANGE IN THE SHARES OF THE NATIONAL INCOME (1850–1910)



KING, W. I., "Wealth and Income of the People of the United States," p. 161. *Reproduced by special permission of The Macmillan Company. Copyrighted*, 1915.

income to less than 60 per cent in the period between 1850 and 1910. The low point was in the first decade, that is from 1850 to 1860. In the second decade, from 1860 to 1870, there was a rapid increase in the

share of the national income which went to labor. In this period wages jumped from less than 40 per cent of the total national income to approximately 50 per cent. From 1870 to 1890 there was a slow but steady increase to the high point of this study, when wages constituted about 55 per cent of the total national income. From 1890 to 1900, however, was a period of recession in which wages dropped back to about 45 per cent of the total national income, from which point they again began to rise to almost 50 per cent in 1910.

Dr. King concluded that for the entire period from 1850 to 1910 there was an increase of about 10 per cent of the total national income which went to labor in the form of increased wages. Wages were increasing both absolutely and relatively. The per capita real wage and labor's share of the total national income were increasing. Hence, the lot of the workers improved rather than retrograded in this period of 60 years.

The general tendencies of the four shares in our national income are illustrated in Charts 19 and 20, page 132. Chart No. 19 shows the gains in absolute amount of the four shares of our national income and Chart No. 20 shows the changes in relative proportions. Only the long run or secular trend is show, for the cyclical or temporary fluctuations have been omitted.

8. Labor's Share of Our Increased Prosperity.—The trends of shares in the distribution of our national income in the generation from 1889 to 1919 were studied by George Soule. Some of his conclusions are similar to those of Dr. King, but others are rather different.

In general it seems reasonable to suppose from what we know that both production and real wages increased between 1870 and 1896. We have not enough data to make possible a detailed comparison between the two factors in this earlier period.

All studies of the subject, however, indicate that real wages began to fall about 1896 and continued to fall up to 1914 and perhaps for 2 or 3 years more. The most comprehensive and satisfactory data from which to calculate the trend of wages come from the United States Census of Manufactures. The Census of Manufactures covers all wage earners in factories and it gives the material for calculating annual earnings instead of wage rates, thus including the effects of part-time and seasonal unemployment. It has been, to be sure, compiled every 5 years and thus misses much of the fluctuations of the business cycle, but over a period of 20 years we ought to be able to discover a trend within reasonable limits even from five-yearly data. An index of real wages, made by comparing the census figures with the index of retail food prices, shows the following result, if we take 1889 as the base.

INDEX OF REAL WAGES, IN FOOD

1889	100
1899	99
1904	99
1914	89
1919	98

Thus, while per-capita production was increasing more than 30 per cent, real wages first fell 10 per cent and then recovered to a position slightly below the levels of 1889 and 1899. It is thus evident that wage earners not only did not receive the same share per capita of the increased product year after year, but actually were receiving at the end of the period slightly less goods than at the beginning. If real wages had increased in direct ratio to the increase in per-capita production, the index number of real wages in 1919 would have been nearer 140 than 98.[1]

The period studied by Mr. Soule differs from that studied by Dr. King, although the two overlap. Although Dr. King concluded that the share of the national income which went to labor increased both absolutely and relatively between 1850 and 1910, Mr. Soule contended that the worker's share of the national income decreased both relatively and absolutely between 1889 and 1914. Dr. King's conclusions would tend to refute the Marxian belief that the workers' share of the national income in the form of wages is becoming less and less. On the other hand, a superficial glance at the conclusions of Mr. Soule would seem to confirm the Marxian belief. But a further analysis of Mr. Soule's findings reveals that the alleged losses of the workers were the gains of the salaried groups and not those of capitalists or the propertied groups.

Dr. King's emendation of the table of Mr. Soule is as follows.

SHARES IN DISTRIBUTION[1]

(Expressed as percentages of the total national income)

Year	Wages	Salaries	Profits, interest, depreciation, rent and miscellaneous
1889	44	8	48
1899	42	8	50
1904	41	9	50
1909	40	11	49
1914	41	13	46
1919	42	12	46

[1] SOULE, G., "The Productivity Factor in Wage Determination," *American Economic Review*, vol. 13, supplement, p. 129 *et seq.* March, 1923.

It would seem that an increased share of the enlarged national income for these years went to those engaged in the "distributing process" and to the "overhead trades" or to "those not engaged in the production of physical goods." One indication of this development, contends Mr. Soule, is the fact that between 1899 and 1914 the retail prices of food increased 50 per cent, although the wholesale prices of food increased only 37 per cent.

[1] SOULE, G., "The Productivity Factor in Wage Determinations," *American Economic Review*, vol. 13, supplement, p. 129 *et seq.*, March, 1923.

Although the middlemen secured an increased portion of the enlarged national income, it would also appear that farmers absorbed some of the relative losses sustained by the workers in industry. It was Dr. King's contention that the share of the total income going to those engaged in agriculture increased from about 13 per cent in 1889 to about 20 per cent in 1918.

In reviewing this combined analysis of Mr. Soule and Dr. King the reader must keep in mind the period studied, namely, the 30 years between 1889 and 1919. It may be true that the agricultural groups gained at the expense of the industrial groups in the period preceding the World War, but in the post-war years the situation has been reversed. The agriculturalists have just gone through a great period of depression due to the deflation of the prices of farm products and the values of farm land. On the other hand, as will be noted in a later section of this chapter, the great gains of the recent years have been made chiefly by the industrialists.

The table of Mr. Soule would seem to show that for the period before the World War, the salaried groups gained at the expense of the laboring groups. But it does not show that service incomes as a whole declined in favor of property incomes. It cannot be used in support of the Marxian theory that the worker is becoming worse off and that the capitalist is profiting thereby. Mr. Soule's figures of the distribution of the national income from 1889 to 1919 do not indicate that property income or the capitalists' share has increased. In this respect, his findings are similar to those of Dr. King.

In reviewing the last table it will be noted that the percentages of the total national income going to labor, that is, to employees engaged in manufacturing industries, declined somewhat from 1889 to 1914. On the other hand, the share of the national income going to the salaried groups increased greatly during this period of 25 years. Mr. Soule's analysis shows that the losses of the manual workers, at least relative if not absolute, were the gains of the salaried groups. It was not property, but other types of service income, which absorbed most of the losses of the wage earners in maufacturing. Moreover, if the period is extended another 5 years the situation is reversed for the two divisions of service income. During the period of inflation from 1914 to 1919, the share of national income going to the salaried groups decreased slightly and that going to the wage earner increased slightly.

9. Property and Service Incomes.—It would appear that the grand division of the national income between property and service has been fairly even and fairly constant. It is true that the share of the national income going to property is rather large and that it is concentrated within a relatively small portion of our total population. It is also true that property income is growing absolutely, that is, it is becoming greater

in amount. But apparently it is not increasing relatively. The results of various studies afford little evidence that the relative share of the national income going to property owners is growing greater, and that the total service income share is growing relatively less. Indeed, it would appear that the long run division of the national income between property and service incomes has changed but little, in spite of the fact that the total national income and the per capita real income have increased.

It will be remembered that the study by Dr. King of the division of the national income between 1850 and 1910 revealed that wages absorbed about half the total national income, varying from about 40 to 55 per cent of the total national income. The residual share of profits, interest, and rent absorbed the other half, varying from about 60 to 45 per cent of the total national income. Dr. King contended that during these 60 years wages increased greatly in absolute amount but only slightly in its relative share of the total national income. The combined property incomes of profits, interest, and rent increased greatly in absolute amount, but decreased slightly in their relative share of the total national income.

It will also be remembered that Mr. Soule discovered interesting variations in the relative shares of the national income going to wage earners and to the salaried groups between 1889 and 1919. But for these 30 years the total share of the national income going to service varied little. The combined wages and salaries share fluctuated from 52 per cent in 1889 to 50 per cent in 1899, remaining there in 1904, increasing to 51 per cent in 1909 and to 54 per cent in 1914, where it remained in 1919. The residual share to property, in the form of profits, interest, depreciation, rent, and miscellaneous shares fluctuated only between 46 and 50 per cent of the total national income. The relative constancy of the division of the national income between property and service incomes in these years of great economic changes is very striking.

The National Bureau of Economic Research studied the division of the national income between property and service incomes for the more recent years. The total national income was divided into two parts, one of which represented the share paid to hired labor and the other the share which went in the form of interest, dividends, profits, and rent. In many cases so-called "property incomes" were found to include an element of wages. Thus, the profits of many small farmers consist not only of pure profits but also of rent and wages for their own labor on their own farms. The percentages of the total national income paid to hired labor are as follows. Although interesting variations were found for different occupations, we shall quote merely the total percentages for the 10 years studied. It will be noted that the total service income was fairly constant for the decade from 1909 to 1918, absorbing slightly over half the total national income.

PERCENTAGES OF SERVICE INCOME IN THE TOTAL NATIONAL INCOME[1]

Year	Percentage	Year	Percentage
1909	53.0	1914	54.7
1910	52.2	1915	53.6
1911	53.9	1916	51.9
1912	54.9	1917	51.6
1913	55.6	1918	54.0

[1] National Bureau of Economic Research, "The Income in the United States," p. 92.

If we eliminate agriculture for the reason given and limit our statistics to mines, factories, and transportation, the above percentages are raised by more than 15 per cent. The results are now as follows:

PERCENTAGES OF SERVICE AND PROPERTY INCOMES[1]

Year	Percentages of net value to wages and salaries	Product distributed to management and property, percentage
1909	68.7	31.3
1910	68.8	31.2
1911	72.3	27.7
1912	71.6	28.4
1913	72.0	28.0
1914	73.8	26.2
1915	71.5	28.5
1916	66.7	33.3
1917	68.9	31.9
1918	77.3	22.7

[1] National Bureau of Economic Research, "The Income of the United States," p. 97.

It will be of interest to note that there is a somewhat similar division of the national income between property and service shares in the United States as in Great Britain. In Great Britain it was found that 71 per cent of the national income went to labor and 29 per cent to property.[1] These percentages do not correspond with those for the United States as a whole, but if we eliminate agriculture, as was done in the last table, the similarity does become very great. Such a refinement is proper, for Great Britain is chiefly an industrial nation, while the United States is both ndustrial and agricultural.

It would seem that the share of our total national income going to property has been a considerable and fairly constant one, which has absorbed from one-third to one-half of our total national income. The

[1] DALTON, H., "Some Aspects of the Inequality of Incomes in Modern Communities."

situation is even more serious because this property income is not evenly diffused among the entire population. The inequalities in the ownership of wealth and in the distribution of income among the people of the United States have already been indicated.

10. Difficulties in Estimating the Course of Wages.—The course of real wages before the opening of the twentieth century is largely a matter of conjecture, for reliable statistics are not available. But the concensus of opinion, based on the best possible evidence, is that real wages increased during the last century. In spite of various fluctuations the general trend seems to have been upward.

The course of real wages during the present century has been carefully studied, but different conclusions have been drawn by various investigators. There are several short run periods which display divergent tendencies. This is particularly true of the period of inflation and rapidly rising prices during the World War. During this relatively short period of time the course of real wages was very irregular and it varied greatly for different groups. However, during the recent post-war decade there seems to have been another upward movement of real wages.

Several studies of the course of real wages will be presented and analyzed. The student will be permitted to draw his own conclusions from the evidence presented. There is considerable unanimity of opinion on some points, for some periods and for some groups, but the student should be prepared to find some differences in the conclusions of various investigators. Their similar and dissimilar findings should be noted carefully. Old and new wage theories should be tested in the light of these quantitative, inductive findings as to the process of distribution and the course of real wages.

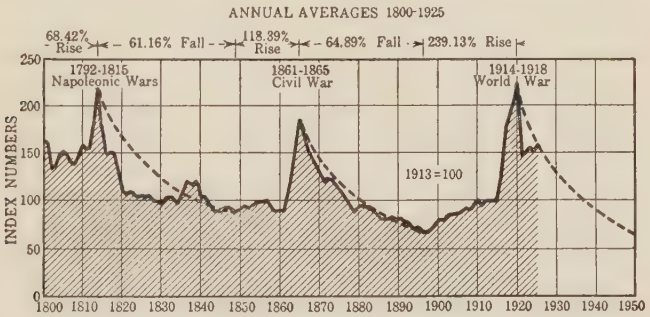
Some divergence of opinion is due to the complexity of the material, the dynamic character of industrial society, and to the differences in the scope and method of the various wage studies. Thus, the term "wages" is used by some investigators to include the salaried groups as well as wage earners in the narrow sense of the term. Again, the term "wages" may be used to include workers in agriculture and other pursuits, or it may be restricted to those in manufacturing and industry.

Although the economist often uses the word "wages" indiscriminately, the trained investigator must carefully define it for the purposes of his study. Divergent conclusions are sometimes due to different indices used to measure wages. Thus, the term "wages" is frequently interpreted by investigators to mean wage rates and the term "earnings" to describe what the worker actually receives. A wage rate represents the earnings of a worker for a short period of time, such as an hour or a day. If a longer period of time is used, such as a month or a year, the effects of unemployment or irregular employment will express themselves. In spite of high wage rates actual earnings may be low. Although actual

earnings afford a better measure of wages than do wage rates, they are much more difficult to secure with any degree of accuracy.

11. Wage Trends and Changes in the General Price Level.—The course of real wages is also difficult to determine because of fluctuations in the general price level. After money earnings have been ascertained they must be refined in terms of the ever changing price level. The distinction between money wages and real wages is familiar, but it is none the less important. It is obvious that if a man receives $2,000 today, instead of $1,000 received a decade ago, his money wages have doubled. But if in the meantime the general price level has doubled, the purchasing power of his money wages has been cut in half. Although his money wages have doubled, his real wages have remained the same.

CHART 21.—THE CHANGING PRICE LEVEL (1800–1927)



Reproduced by permission from American Labor Legislative Review, p. 90, *March*, 1928. *Graph entitled "Will History Repeat Itself?"*

This chart shows the changes in the general level of commodity prices at wholesale according to the annual averages of the U. S. Bureau of Labor Statistics.

It is necessary at the very outset that the important movements in the general price level be kept in mind. The above chart illustrates the "dance of the dollar" during the past century and the first quarter of the present century. It will be noted that the Civil War was a period of inflation during which relatively short time the general price level more than doubled. From the close of the Civil War until almost the opening of the present century, the general trend of the price level was downward, in spite of minor fluctuations during this period of 30 years.

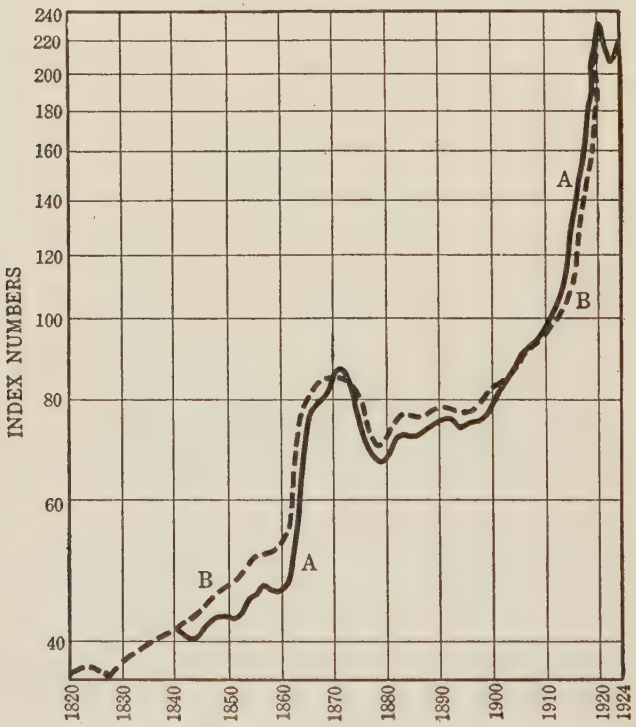
About 1896, however, a change occurred, the causes of which are familiar to most students of economics. The general price level began to rise slowly instead of continuing its fall. In spite of minor fluctuations the general trend was gradually upward during the next two decades.

The period of the World War, however, and the two post-war years of inflation witnessed a rapid increase in the general price level. Within five years the general price level doubled. But in 1920 and 1921 there was a precipitous drop in the general price level, although it did not fall

back to its prewar level but only to a midway point. Since that time general price level has experienced only minor fluctuations.

12. Long Run Trend of Real Wages during the Past Century.—One of the best studies of the general trend of real wages is that of Prof. Hansen, for it covers a very long period of time. It gives an excellent bird's-eye view of the course of real wages during the past century. The results of this study are reproduced below in graphic form.

CHART 22.—COURSES OF MONEY WAGES (1820–1924)



Reproduced by permission from HANSEN, A. H., "*Factors Affecting the Trend of Real Wages*," *American Economic Review, p.* 28, *March*, 1925.

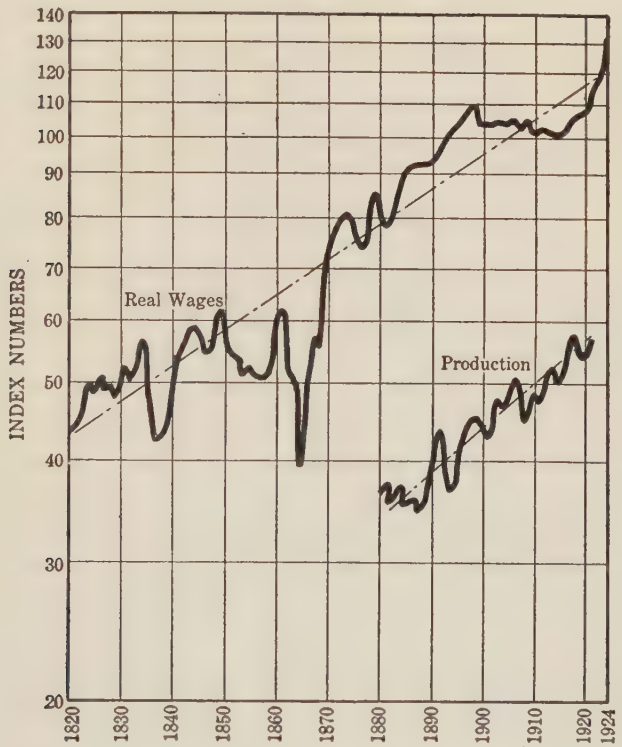
The above diagram (Chart 22) is a logarithmic curve of the course of money wages. The solid line (Curve *A*) represents Prof. Hansen's combination and coordination of a number of previous studies of the course of money wages. The dotted line (Curve *B*) represents a study of the same problem by the Russell Sage Foundation. It is expressed in a similar fashion. The correlation between the two curves is unusually great. This testifies to the truth of the picture which is presented, for each finding was independently arrived at.

The data for Prof. Hansen's curve (Curve *A* in Chart 22) are for daily wages from 1840 to 1890, for full time weekly earnings from 1890 to

1914, and for actual weekly earnings from 1914 to 1923. The statistical department of the Russell Sage Foundation computed its data from an average of the index numbers of the weekly wages of laborers and artisans. This is expressed in Curve *B* of Chart 22.

In order to convert an index of money wages into an index of real wages, an index of the cost of living is essential. In the table which follows the graphs are given the yearly indices of money wages, costs of

CHART 23.—COURSE OF REAL WAGES AND PRODUCTION (1820–1924)



Reproduced by permission from HANSEN, A. H. *"Factors Affecting the Trend of Real Wages," American Economic Review, p. 34, March, 1925.*

living, and real wages as set forth by Prof. Hansen. The student may consult it for reference purposes, but in order to settle any point of method he should go to the original article. The table will be found on p. 142.

The above graph (Chart 23) gives the logarithmic curve of real wages from 1820 to 1923 as stated by Prof. Hansen. It also shows the curve of production from 1880 to 1920. The dotted straight line indicates the general trend of real wages by the elimination of minor fluctuations, that is, it gives only the secular trend and omits the cyclical movements shown in the other curve.

Real Wages in the United States since 1820[1]

(1913 = 100)

Year	Index of money wages	Index of money wages	Index of cost of living	Index of real wages	Year	Index of money wages	Index of money wages	Index of cost of living	Index of real wages
1820	....	36	88	41	1872	(69)	85	109	78
1821	....	36	84	43	1873	(69)	85	106	80
1822	....	37	86	43	1874	(67)	82	107	77
1823	....	37	82	45	1875	(67)	77	106	73
1824	....	37	76	49	1876	(64)	74	101	73
1825	....	37	78	47	1877	(61)	68	93	73
1826	....	37	74	50	1878	(60)	67	86	78
1827	....	36	77	47	1879	(59)	66	78	85
1828	....	37	76	49	1880	(60)	66	86	77
1829	....	37	78	47	1881	(62)	68	89	76
1830	....	37	72	51	1882	(63)	70	90	78
1831	....	38	75	51	1883	(64)	71	88	81
1832	....	38	77	49	1884	(64)	71	84	85
1833	....	39	75	52	1885	(64)	70	77	91
1834	....	39	69	57	1886	(64)	70	77	91
1835	....	39	81	48	1887	(67)	72	78	92
1836	....	40	92	43	1888	(67)	73	79	92
1837	....	40	97	41	1889	(68)	73	81	90
1838	....	40	96	42	1890	(69)	74	77	96
1839	....	40	96	42	1891	(69)	74	76	97
1840	(33)	41	80	51	1892	(69)	75	75	100
1841	(34)	41	81	51	1893	(69)	75	76	99
1842	(33)	41	74	55	1894	(67)	72	71	101
1843	(33)	40	69	58	1895	(68)	73	70	104
1844	(32)	40	70	57	1896	(69)	74	69	107
1845	(33)	41	72	57	1897	(69)	74	67	110
1846	(34)	42	78	54	1898	(69)	74	69	107
1847	(34)	42	78	54	1899	(70)	75	72	104
1848	(35)	43	73	59	1900	(73)	77	76	101
1849	(36)	43	69	62	1901	(74)	78	75	104
1850	(35)	43	73	59	1902	(77)	81	78	104
1851	(34)	42	81	52	1903	(80)	83	81	102
1852	(35)	42	80	53	1904	(80)	83	81	102
1853	(35)	43	86	50	1905	(82)	85	81	105
1854	(37)	45	86	52	1906	(85)	88	85	104
1855	(38)	46	90	51	1907	(89)	92	90	102
1856	(39)	46	92	50	1908	(89)	91	87	105
1857	(40)	47	94	50	1909	(90)	92	91	101
1858	(39)	46	93	49	1910	(93)	94	94	100
1859	(39)	46	85	54	1911	(95)	95	92	103
1860	(39)	47	82	57	1912	(97)	98	96	102
1861	(40)	47	77	61	1913	(100)	100	100	100
1862	(41)	48	96	51	1914	(102)	102	102	100
1863	(44)	55	109	50	1915	(103)	104	104	100
1864	(50)	64	141	45	1916	(111)	118	111	106
1865	(58)	72	191	38	1917	(128)	134	131	102
1866	(61)	76	154	49	1918	(162)	168	159	106
1867	(63)	78	136	57	1919	(184)	193	183	105
1868	(65)	79	143	55	1920	(234)	232	208	112
1869	(66)	83	125	66	1921	(218)	207	182	114
1870	(67)	84	119	71	1922	(208)	201	168	120
1871	(68)	86	112	77	1923	(217)	220	171	129

[1] Hansen, A. H., "Factors Affecting Trend of Real Wages," *American Economic Review*, p. 32, March, 1925. The figures in parentheses represent an index of money wages prepared by the United States Bureau of Labor Statistics, *Monthly Labor Review*, vol. 12, p. 74, February, 1921, *et seq.* This index is for wage rates, that is, for wages per hour, from 1840 to date. But it shows wage trends similar to those pictured by Prof. Hansen. As the bases of the two studies are the same (1913 = 100) the index of the United States Bureau of Wage Statistics has been superimposed here on that of Prof. Hansen for purposes of comparison.

One of the most interesting features of Chart 23 is that the secular trend of real wages almost exactly parallels that of production. Hence, in the long run, if not in the short run, the general tendency has been for labor to share in the increased productivity of industry.

It will be noted, according to this study, that real wages toward the close of the nineteenth century were over twice as great as those of the early decades of that century. In 1920 they were between three and four times as great as in 1820.

It would also appear that there has been an inverse relationship between the course of real wages and that of the general price level. Most of the gains in real wages have been in periods of a declining price level. This is especially true of the salaried groups, but it is also true to a less degree and with more numerous exceptions of wage-earning groups.

Although the long run course of real wages has been upward as shown by the graph and table of Prof. Hansen, it will be noted that there have been periods of relative and even of absolute recession. Thus, there was a fall in real wages in the middle 'thirties, about which little is known except that it was probably associated with the panic of 1837. There was a period of recovery in the later 'thirties and 'forties followed by a decline in the early 'fifties and a period of recovery in the late 'fifties.

During the Civil War prices rose more rapidly than money wages. Hence, real wages suffered during this period of inflation, but they recovered rapidly during the late 'sixties and the early 'seventies. Although undergoing two cyclical variations in the next decade the general trend was upward. From the middle of the 'eighties to the middle of the 'nineties there was a steady and rapid upward tendency in the course of real wages.

From 1897 to 1900, however, there was a rather rapid recession in the course of real wages. It will be noted that this period is one characterized by a changed tendency of the general price level. Instead of continuing along its former downward course, the general price level began slowly to move upward just before the close of the nineteenth century.

After the decline in real wages between 1897 and 1900 no general trend in the course of real wages appeared for the next 15 years. Although there were interesting yearly variations, Prof. Hansen's index of real wages for 1913, 1914, and 1915 is 100, which is just one point below that of 1900. In other words, real wages varied from year to year during this period of 15 years but there was little net advance and, if anything, a slight decrease.

The year 1916 showed some advance in real wages over the level of the previous 3 years, but most of this gain was lost in 1917. The year

1918 showed an advance to the level of 1916, which was six points above that for 1913, 1914, and 1915. The year 1919 showed a negligible change from that of 1918.

After this period of uncertainty, however, real wages showed a definite upward trend. From 1919 to 1923 real wages rose both steadily and rapidly. This recent increase in real wages, as will later be shown from other studies, has continued up to the present time. The new Industrial Revolution of the United States, discussed in Chap. IV, has been characterized by a rapid and substantial increase in real wages.

13. General Trend of Real Wages during the Past Generation.— The study of Mr. Soule also indicated a period of increasing real wages during the 'eighties and 'nineties, but a period of recession from 1897 to 1915. A similar situation was found by Dr. King and Dr. Rubinow in their analyses of the Bureau of Labor Statistics of wages and indices of the cost of living.

Dr. King contended that the average annual money wage in the United States rose from $323 in 1880 to $417 in 1900, or expressed in terms of a constant, namely, the average price level from 1890 to 1899, real wages rose from $244 in 1880 to $410 in 1900. But in the next decade, that is from 1900 to 1910, there was a fall of $9 in real wages in spite of an increase of $90 in money wages.[1]

Dr. Rubinow likewise contended that the course of real wages was upward between 1870 and 1890, but that it went downward rapidly between 1900 and 1913.[2] He even expressed the rather extreme view that real wages in 1913 were only slightly above those of 1870. Most students, however, feel that the losses in real wages during the first decade of the twentieth century were not so great as the gains in real wages in the last two decades of the nineteenth century.

The findings of the United States Bureau of Labor Statistics as to the course of money wages and real wages are invaluable. It is important to remember, however, that the estimates of wages of the United States Bureau of Labor Statistics are based on wage rates, that is, on wages per hour and not on actual weekly or monthly earnings. Hence, its findings are not entirely comparable to those of Prof. Hansen. Nevertheless, the general trend of real wages for the past generation is somewhat similar in the two studies.

The following table gives the index of money wages and real wages for the past two decades according to the United States Bureau of Labor Statistics:

[1] King, W. I., "Wealth and Income of the People of the United States," p. 168.

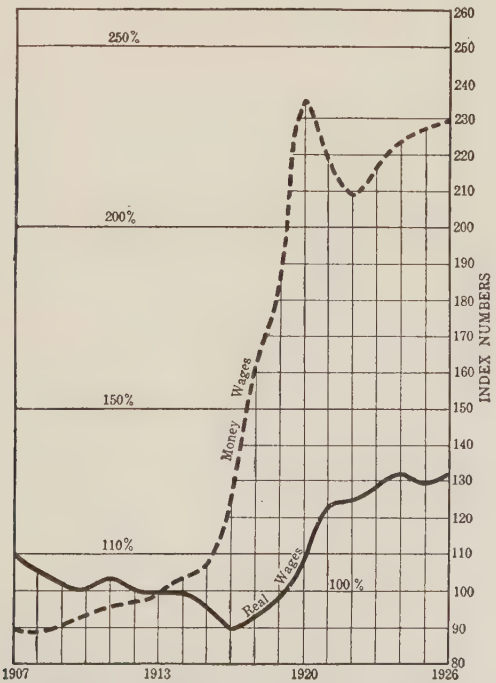
[2] Rubinow, I. M., "The Recent Trend of Real Wages," *American Economic Review*, p. 793, December, 1914.

WAGES IN THE UNITED STATES FROM 1907 TO 1926[1]
(Base 1913 = 100)

Year	General index of wages per hour	Index number of cost of living	Relative purchasing power of wages	Year	General index of wages per hour	Index number of cost of living	Relative purchasing power of wages
1907	89	82.0	108.5	1917	128	142.4	89.9
1908	89	84.3	105.6	1918	162	174.4	92.9
1909	90	88.7	101.5	1919	184	188.3	97.7
1910	93	93.0	100.0	1920	234	208.5	112.2
1911	95	92.0	103.3	1921	218	177.3	123.0
1912	97	97.6	99.4	1922	208	167.3	124.3
1913	100	100.0	100.0	1923	217	171.0	126.9
1914	102	103.0	99.0	1924	223	170.7	130.6
1915	103	105.1	98.0	1925	226	175.7	128.6
1916	111	118.3	93.8	1926	229	175.2	130.7

[1] U. S. Bureau of Labor Statistics, Reproduced from an article by John Q. Tilson of the House of Representatives, *American Tariff Review*, p. 256, August, 1928.

CHART 24.—TRENDS OF MONEY WAGES AND REAL WAGES (1907–1926)
(Base—Level of 1913—100 Per Cent. Money Wages in Current Dollars, Real Wages in Dollars of 1913)



According to U. S. Bureau of Labor Statistics. See above table.

From this estimate of the United States Bureau of Labor Statistics it will be noted that there was a decline in the course of real wages in the decade from 1907 to 1917. Real wages fell from 1907 to 1910, recovered somewhat in 1911, only to fall again in 1912. The general level of real wages from 1912 to 1915 was several points below that of 1907 and 1908.

According to this survey of real wages there was a slow decline in 1914 and 1915 and a rapid fall in 1916 and 1917. Consecutive gains in 1918 and 1919, however, brought the level of real wages almost back to the prewar level of 1913. Still more rapid and fairly consistent gains were made in the following years, particularly in 1920 and 1921. However, it must be remembered that the economic depression of these two years was characterized by unemployment which converted high wage rates into low earnings. By 1926, real wages were over 30 per cent above the prewar level of 1913 according to the findings of the United States Bureau of Labor Statistics.

14. Real Wages during the Period of Inflation.—There is a fairly common agreement as to the upward course of real wages in the 'eighties and early 'nineties and as to their downward course in the late 'nineties and the first decade of the twentieth century. There is considerable difference of opinion, however, as to the course of real wages during the war and the post-war period of inflation. Again, all studies testify to a considerable increase of real wages during the recent post-war years.

The disputed period of the World War and the following two or three years is confused by the rapidity with which prices rose and by the great divergencies in the gains of various groups of workers, to say nothing of the opposite tendencies of real wages for the salaried and the laboring groups. There are several studies of the course of real wages during this war-time period of inflation which are well worthy of review, and which are rather representative of the variations in method and of the differences of opinion which prevail.

Professor Paul H. Douglas and Miss Frances Lamberson made a survey of the course of real wages from 1890 to 1918. Their method was to compare wage rates in ten important industries with the current food prices. Rent, which is so large an item in the family budget of the workers, was omitted. These investigators assumed that food prices would serve as a fairly accurate barometer of changes in the costs of living and of variations in the general price level. At any rate, the expenditure for food is the largest single item in the family budgets of workers.

The following conclusions were reached by the study of Douglas and Lamberson. The course of real wages for workers in manufacturing was fairly constant from 1890 to 1918 except for the period from 1907

to 1912 and that from 1916 to 1918, during which two periods food prices apparently rose faster than money wages. The net result was that the purchasing power of full time weekly earnings was 29.6 per cent less in 1918 than in the decade from 1890 to 1899. During 1918, however, money wages began to gain on prices and real wages began to advance beyond the low point of 1917.

All the evidence seems to indicate that at the termination of the Great War the return in commodities that American workmen received for an equal length of time worked (one hour) was from 10 to 20 per cent less than it was in the decade from 1890 to 1899, and from 7 to 17 per cent less than it had been before the sharp upward movement of prices in 1916. The purchasing power of the established week's work, moreover, was from 20 to 30 per cent less than in the 'nineties, and from 10 to 20 per cent less than in 1915. American labor as a whole, therefore, cannot legitimately be charged with having profiteered during the war. Rather, like Alice in Wonderland, it was compelled to run faster in order to stay in the same place.[1]

The National Bureau of Economic Research also carefully studied the course of money wages in its investigation of the national income during the decade from 1909 to 1918. It then compared its findings as to money wages with an index of changes in the general price level during the same period. The refinement of money wages into real wages was not done simply by comparing them with changes in the prices of food, for other elements in the cost of living were included. Again, the National Bureau of Economic Research investigated all service incomes rather than merely the wages of workers in manufacturing. Moreover, whereas the study of Douglas and Lamberson was based on wage rates, that of the National Bureau of Economic Research was computed from average actual annual earnings. Because of these differences in method and units of comparison the student will not be surprised to find somewhat different results. Nevertheless, there are important similarities in the conclusions of the two studies.

The findings of the National Bureau of Economic Research as to the course of average money earnings and average real earnings of all employees in all occupations from 1909 to 1918 is given in the following table.

[1] Douglas, P. H. and Lamberson, F., "The Movement of Real Wages, 1890–1918," *American Economic Review*, pp. 425 and 426, September, 1921.

MONEY WAGES AND REAL WAGES[1]

Year	Average annual earnings	Index of purchasing power of earnings; base, prices of 1913
1909.....	$626	90.7
1910.....	656	92.8
1911.....	648	91.1
1912.....	692	96.3
1913.....	723	100.0
1914.....	674	92.4
1915.....	697	93.6
1916.....	831	104.4
1917.....	961	103.0
1918.....	1,078	94.3

[1] National Bureau of Economic Research, "Income in the United States," p. 102.

According to these figures, the economic condition of the average employee improved in all the industries covered from 1909 to 1913, though the improvement was slight in the hand trades, water transportation, agriculture, and "unclassified industries." The grand average shows a gain of 10.6 per cent in purchasing power in those four years. From 1913 to 1918, on the contrary, the grand average undergoes wide fluctuation, caused by the violent changes in wage rates and living expenses, the net effect of which was a decline of about 5 per cent of the purchasing power enjoyed in 1913. This decline, however, was confined to four industries—government, whose enlistment of millions of soldiers brought down the average compensation sharply in 1918; public utilities, which suffered to a peculiar degree from inability to raise their selling prices and which largely increased the proportion of their female employees; the unclassified industries; and banking, in which salaries did not advance so steadily as the cost of living. On the other hand notable gains were scored by employees of mines, factories, railways, and water transportation.[1]

15. Summary of the Course of Real Wages.—A very clear summary of the course of real wages has been given by Mr. Soule in the article referred to before.

A summary of the preceding sections shows that while the national per-capita product was increasing steadily (of course with minor fluctuations due to the business cycle) manufacturing wage earners experienced the following four periods:

(*a*) A period (between 1870 and 1896) about which little is known in detail except that real wages increased.

[1] National Bureau of Economic Research, "Income in the United States," p. 102.

(*b*) A period (between 1896 and 1914) in which real wages decreased. The new surplus of production, plus what the wage earners lost, was absorbed in part by manufacturing salary earners, in part by the distributing and overhead trades, but chiefly by agriculture.

(*c*) A period (between 1914 and 1919) in which real wages showed a net increase, but not increase enough to absorb any of the increase in per-capita production since 1899. During this period the real per-capita incomes of those engaged in agriculture increased as well.

(*d*) A period (between 1919 and the present) in which real wages showed a more rapid rise than ever before. Measured from 1899, however, the present wage level does not show as great an increase as the increase in per-capita production during the same period. The recent rise in real wages was accompanied by a rapid decline in agricultural income, and in the per-capita income of farmers. Probably, however, the present share per-capita of agriculture in the national income is still larger than in 1899.

During the course of each of the above periods there were fluctuations in wages.[1]

The situation has been summed up still more briefly as follows:

Such data as are available seem to indicate that labor generally suffered a decline in purchasing power during the period 1914 to 1917; wages began to catch up in 1918, and for the most part caught up with prices somewhere between 1919 and 1920.[2]

16. Divergent Tendencies of Real Wages for Various Groups.— Disagreement as to the course of real wages from 1914 to 1920 is due in part to the fact that the course of real wages has varied from group to group. This is true of various labor groups, but especially of industrial workers as contrasted with the salaried and professional groups.

Professor Douglas revised and continued his earlier estimates of the course of real wages. Moreover, he expanded his study to include labor groups other than wage earners in factories. His later results are very interesting and differ somewhat from his earlier findings.

This index of real wages by Prof. Douglas was made by first securing an average of the annual money earnings of the workers in each group for each year. In the next place a cost of living index was prepared for each year and the average, annual, money earnings were converted into real annual earnings. Finally, a weighted average was struck for all groups. The results of this study are reproduced in the table on page 150.

From this study it would seem that the relative, average, annual, real earnings of all groups were fairly constant for the first 20 years of the period studied. There were slight temporary increases in 1895 and 1909, and a relatively great but temporary increase in 1913. On the

[1] Soule, G., "The Productivity Factor in Wage Determination," *American Economic Review*, vol. 13, supplement, p. 129 *et seq.*, March, 1927.

[2] Fitch, J. A., "Causes of Industrial Unrest," p. 40.

RELATIVE AVERAGE ANNUAL REAL EARNINGS OF EMPLOYED WORKERS[1] IN AMERICAN INDUSTRY

(Average 1890 to 1899 in each group = 100)

Year	Wage earners	Wage earners	Clerical and lower salary workers	Ministers	Teachers	Government employees	Postal employees	All groups
	Manufacturing	Transportation	Transportation and manufacturing					
1890	101	98	88	99	87	...	95	100
1891	104	99	91	100	92	...	98	102
1892	105	100	93	101	93	100	96	102
1893	100	102	98	104	97	103	98	100
1894	95	102	103	109	103	107	103	98
1895	102	101	105	104	105	106	105	103
1896	97	99	105	99	104	102	103	99
1897	97	99	106	97	105	99	102	98
1898	98	99	106	95	107	95	100	98
1899	99	98	105	91	109	93	99	99
1900	98	95	101	89	109	91	96	98
1901	101	94	100	87	110	91	95	99
1902	102	92	99	86	110	89	92	100
1903	100	93	95	84	108	86	87	99
1904	99	95	97	85	114	86	88	99
1905	103	95	101	85	120	87	90	102
1906	101	94	99	84	120	85	86	101
1907	99	96	95	85	120	81	84	100
1908	94	100	100	89	132	85	92	99
1909	102	97	99	88	137	85	95	104
1910	104	96	96	80	133	80	93	104
1911	97	96	97	83	134	79	92	101
1912	99	98	98	85	139	79	92	103
1913	100	100	97	84	139	77	91	112
1914	99	103	97	87	142	76	93	105
1915	99	107	99	93	150	79	96	107
1916	104	105	95	88	144	74	88	109
1917	103	99	83	77	125	66	75	104
1918	107	115	83	70	114	59	67	109
1919	111	109	80	64	118	57	68	109
1920	114	114	79	65	122	54	66	111
1921	115	121	91	82	167	...	79	119
1922	119	124	95	91	194	...	87	123
1923	128	122	94	89	199	...	86	127
1924	128	122	95	92	204	...	...	128

[1] "DOUGLAS, PAUL, Movement of Real Wages and Its Economic Significance," *American Economic Review*, supplement, p. 33, March, 1926.

whole, however, prior to 1914 the money earnings of most groups of workers had failed to get far ahead of the increases in costs of living.

Although the index for all groups in 1914 shows a slight increase over the average level from 1890 to 1899, this is due exclusively to the gains of two groups. The real earnings of teachers in 1914 were almost twice as great as in 1890, for the intervening years had shown steady gains in the salaries and the professional requirements of this greatly elevated profession. However, these apparent gains in the real wages of teachers must be discounted, because they were due in large part to the elimination of part-time teachers and those who "kept school" for only a few months in the winter season and whose low wages did not form a fair basis of comparison with those of the later ten-months teachers. In 1914 the real wages of transportation workers were above 100 for the first time in 15 years. On the other hand, the relative index of the average, annual, real earnings of other groups was below 100, *e.g.*, only 99 in manufacturing, 97 for clerical workers, 87 for ministers, 76 for government employees, and 93 for postal clerks.

The years 1915 and 1916 saw gains of two points each year to 107 and 109 respectively in the average real earnings of all workers. In 1915 the relative purchasing power of the employed workers increased in all occupations except that of manufacturing, in which industry the index of earnings remained constant at slightly below the average level from 1890 to 1899. During 1916 and 1917, however, real earnings in manufacturing first increased from 99 to 104 and then receded to 103. The workers in other groups, however, lost steadily, even more so in 1917 than in 1916. The net effect was that the general index, which had been raised to 109 in 1916, fell back to 104 in 1917, which represents a 4 per cent increase over the base, that is, the average level from 1890 to 1899.

The recession of 1917 in the real earnings of all groups was followed by a gain in 1918 to the same level as that of 1916, but not to the high-water mark of 1913. In 1918 the real earnings of employees in manufacturing and transportation increased, although those of other groups remained constant or fell off somewhat. In 1919 the general index suffered no change, but remained constant at 109. The real wages of workers in manufacturing increased, but those of transportation workers and other groups decreased.

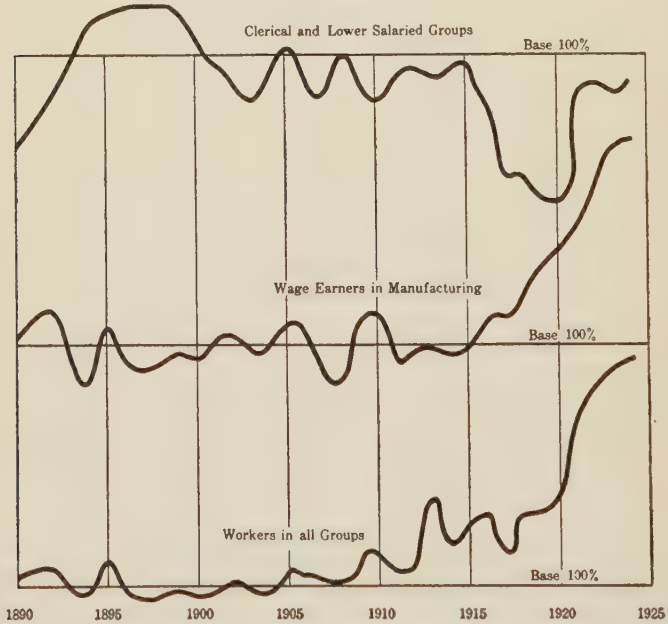
The average annual wages of all groups is very misleading, because of the disparity in the gains and losses of different groups. Thus, the early 'nineties showed high levels for wage earners and those employed in manufacturing industries, but low levels for the clerical and lower salaried groups. The reverse is true for the later 'nineties. For the clerical and lower salaried groups the first two decades of the twentieth century were at first one of slow regression and then later of rapid

regression. In the period from 1916 to 1920 the real wages of this group declined from 95 to 79. Teachers, who had gained steadily from 1890 to 1915, suffered between 1915 and 1919 a sudden loss in real earnings of 32 points. On the other hand, wage earners in manufacturing made great gains in these four years, going from a percentage of 99 in 1915 to one of 111 in 1919.

Since 1919 there has been a rapid gain in the real earnings of nearly all groups. Thus, the index for employees in manufacturing increased from 111 in 1919 to 128 in 1924, and for employees in transportation

CHART 25.—DIVERGENT TRENDS OF REAL WAGES FOR SALARIED GROUPS AND WAGE EARNERS IN INDUSTRY (1890–1924)

(Base—Average from 1890–1899 = 100 Per Cent)



Prepared from index of Professor Douglas. See table on p. 150.

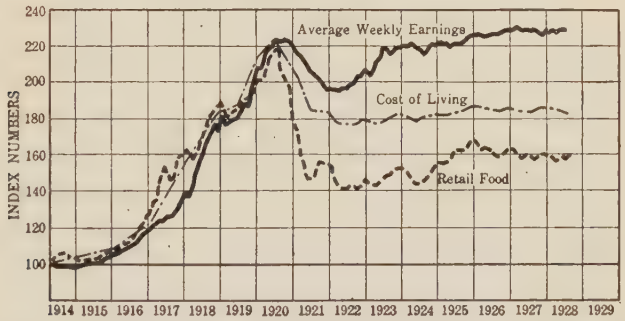
from 109 in 1919 to 122 in 1924. The gains for these groups of workers were distributed fairly evenly over these 5 years.

The increase in real wages for the clerical, salaried, and professional groups was concentrated chiefly in the years 1921, which witnessed a great fall in the general price level. Thus, the index for the relative, average, annual, real earnings of the clerical and lower salaried groups jumped from 79 in 1920 to 91 in 1921. But in 1924 the real earnings of this group were still 5 per cent below the average for the decade from 1890 to 1899, although the real wages of employees in manufacturing and transportation were 28 and 22 per cent above their respective former averages.

The divergent tendencies of the real earnings of the salaried groups and the workers in industry may be seen in Chart No. 25 on p. 152 which plots graphically some of these findings of Prof. Douglas.

17. Recent Increases of Real Wages in Industry.—During the post-war decade there seems to have been a decided increase in real wages in industry. It will be remembered that this period has also been one of greatly increased productivity in industry without the artificial stimulus of a rising price level. Although some studies of the course of real wages during the period of the World War do not permit the conclusion that real wages advanced during this period, there is a remarkable unanimity of testimony to the fact that there has been an increase of real wages during the post-war years.

CHART 26.—INCREASE OF REAL WAGES OF FACTORY WORKERS IN NEW YORK STATE (1914–1928)



Reproduced by special permission from Bulletin of the National City Bank, p. 170, November, 1928.

This chart was prepared from data of the New York State Department of Labor and may be taken as representative of the recent trends of money wages, costs of living, and real wages.

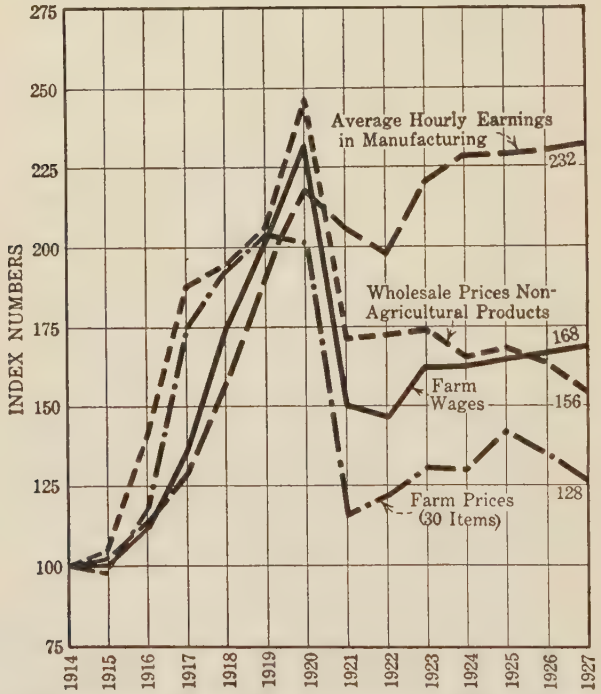
This recent increase of real wages has been most remarkable among the workers in manufacturing and other industries. It has just been indicated that the salaried groups suffered severly during the period of inflation and that they recovered somewhat with the fall in the general price level in 1920 and 1921. Is is doubtful, however, whether the real earnings of many salaried groups are now up to their prewar level.

This recent increase in the real wages of workers in industry is illustrated in Chart No. 26, given above, which traces the course of average weekly money earnings in industry and the variations in the costs of living from 1914 to 1928. It will be noted that from 1914 to 1920 the increases in the costs of living kept pace with the increases in money earnings. But in the more recent years, that is, from 1920 to 1928 there has developed a considerable spread between money earnings and the costs of living. Herein lies the recent increase in the real wages of workers in industry.

It is also interesting to note that these recent gains of the industrial groups stand out in sharp contrast to the losses of the agricultural groups. Farmers, farm owners, and farm workers suffered severely from the post-war deflation, even more severely than did the industrial groups. Moreover, their recovery has been much slower.

Chart No. 27, given below, pictures the course of average hourly earnings in manufacture, farm wages, farm prices, and the wholesale prices of

CHART 27.—WAGES AND PRICES IN AGRICULTURE AND MANUFACTURING (1914–1927)
(Base—Level of 1914 = 100 Per Cent)



Reproduced by special permission of National Industrial Conference Board from "Wages in the United States 1914–1927," p. 84.

non-agricultural products from 1914 to 1927. It will be noted that from 1914 to 1920 the indices of these four items rose rapidly and paralleled each other somewhat. The only significant difference is that the index of farm prices never rose to so high a point as the index of non-agricultural prices. It will also be noted that in 1920 and in 1921 the indices of farm prices and of farm wages fell to much lower points than did the indices of the prices of non-agricultural goods and of manufacturing wages.

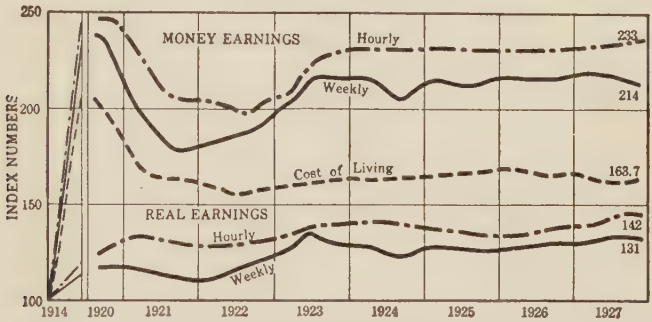
The divergent tendencies of these four items in recent years, however, is even more interesting. Farm wages recovered somewhat from 1922 to 1927, particularly in the first year. Farm prices recovered from

1921 to 1925 but declined again from 1925 to 1927. But the most remarkable feature of this study is the fact that in spite of a considerable decline in the index of prices of non-agricultural products from 1923 to 1927, there has been a considerable increase in the index of average hourly wages in manufacture in almost the same period.

The recent course of wages in manufacturing and other industries has been studied very intensively by the National Industrial Conference Board. Chart No. 28, given below, pictures the course of money earnings (hourly and weekly), the changes in the costs of living, and the course of real earnings in manufacturing industries from 1920 to 1927. The year 1914 is made the basis of comparison, the percentage for that year being 100. In 1920 it would appear that the index number of real earn-

CHART 28.—INDEX NUMBERS OF HOURLY AND WEEKLY MONEY AND REAL EARNINGS AND COST OF LIVING OF WAGE EARNERS IN MANUFACTURING (25 INDUSTRIES)

(Base—July, 1914 = 100 Per Cent)



Reproduced by courtesy of National Industrial Conference Board from "Wages in the United States, 1914–1927," p. 42.

ings on an hourly basis was from 22 to 28 per cent greater than in 1914 and on a weekly basis from 18 to 19 per cent greater than in 1914. By the end of 1927, however, the index number of real earnings on an hourly basis was 42 per cent above the 1914 level and on a weekly basis it was 31 per cent above the 1914 level. On page 156 is given the complete table of these findings of the National Industrial Conference Board, which the student may consult for reference purposes.

An equally optimistic view was expressed in 1928 by Prof. Slichter.[1]

Since 1914, the buying power of the hourly earnings—real hourly earnings—of American factory workers has increased about 35 per cent. Now European observers are flocking to the United States to discover why wages here have been rising so rapidly. About two-thirds of the advance occurred between 1914 and 1920. Every one knows why workers were able to push up wages during the war and post-war boom. The amazing fact is that between 1920 and 1927 in the face

[1] SLICHTER, S. H., "The Secret of High Wages," *The New Republic*, p. 183, Mar. 28, 1928.

MONEY WAGES AND REAL WAGES IN MANUFACTURING INDUSTRIES FROM 1920 TO 1927[1]

	Average hourly earnings		Average weekly earnings		Cost of living index	Index number of real earnings	
	Actual	Index number	Actual	Index number		Hourly	Weekly
1914:							
July	$0.245	100	$12.54	100	100	100	100
1920:							
Third quarter	0.606	247	30.09	240	202.4	122	119
Fourth quarter	0.607	248	28.64	228	193.5	128	118
1921:							
First quarter	0.562	229	25.22	201	175.4	131	115
Second quarter	0.531	217	23.58	188	165.1	131	114
Third quarter	0.501	205	22.71	181	163.3	126	111
Fourth quarter	0.499	204	22.90	183	163.1	125	112
1922:							
Third quarter	0.484	198	23.39	187	155.2	128	120
Fourth quarter	0.501	205	24.69	197	158.1	130	125
1923:							
First quarter	0.506	207	25.26	201	158.3	131	127
Second quarter	0.542	221	27.09	216	159.8	138	135
Third quarter	0.551	225	26.79	214	162.3	139	132
Fourth quarter	0.560	229	27.01	215	164.8	139	130
1924:							
First quarter	0.561	229	26.97	215	163.8	140	131
Second quarter	0.560	229	26.04	208	161.6	142	129
Third quarter	0.559	228	25.46	203	162.7	140	125
Fourth quarter	0.562	229	26.65	213	165.4	138	129
1925:							
First quarter	0.558	228	27.13	216	165.9	137	130
Second quarter	0.560	229	26.77	213	165.7	138	129
Third quarter	0.556	227	26.55	212	168.5	135	126
Fourth quarter	0.559	228	27.27	217	171.0	133	127
1926:							
First quarter	0.557	227	27.27	217	169.4	134	128
Second quarter	0.563	230	27.08	216	168.0	137	129
Third quarter	0.563	230	27.01	215	166.0	139	130
Fourth quarter	0.566	231	27.29	218	167.9	138	130
1927:							
First quarter	0.567	231	27.48	219	165.4	140	132
Second quarter	0.570	233	27.40	219	164.1	142	134
Third quarter	0.571	233	27.11	216	162.3	144	133
Fourth quarter	0.570	233	26.89	214	163.8	142	131

[1] National Industrial Conference Board, "Wages in the United States 1914 to 1927," Compiled from tables on pp. 25 and 41.

of a decrease of about 10 per cent in factory employment and of 30 per cent in trade union membership, real hourly earnings have increased over 11 per cent.

The best index of wage *rates* is hourly earnings. The National Industrial Conference Board found that the hourly earnings of factory workers decreased 14 per cent between 1920 and 1921, and 19 per cent between 1920 and 1922. Wage *rates* probably dropped 20 or 25 per cent. But between 1920 and 1921 non-agricultural wholesale prices fell 31 per cent. With 3,500,000 men out of work, why did employers not cut wages in proportion to other prices?

18. Causes of Recent Increases of Real Wages in Manufacturing.— The chief reason for this increase in the real wages of workers in manufacturing is the recent increase in industrial productivity. The factors stressed by the President of the National Industrial Conference Board are the mechanization of industry, mass production, greater plant efficiency, and greater intelligence of industrial management.

Professor Slichter finds a partial answer to his question in the desire of employers to conciliate labor and to avoid industrial disputes. But a still more important answer to his question he finds in the increased productivity of labor and the new efficiency of industry. One indication of the increased efficiency of industry is the fact that between 1919 and 1925 the value of factory output increased by over a billion dollars but the cost of raw materials decreased by almost a billion dollars. This saving of two billion dollars represented almost 20 per cent of the wage bill for 1919.

Another indication of our increased industrial productivity is the fact that the manufacturers increased the physical output of the worker between 1919 and 1925 about 37 per cent. Thus, the secret of our rapidly increasing real wages is to be found in the great recent increase of industrial productivity per worker. Although this increase of output may be due to a greater use of mechanical power, to improved industrial processes and other new devices of management, as well as to an increased efficiency of the worker himself, labor has felt the effects in greater real wages.

The increased efficiency of industry, as just pointed out, made it unnecessary for the employers to cut wage rates in proportion to the decline in the general price level. Again, the disastrous experience of 1920 and 1921 showed such a move to be of doubtful economic expediency. The great majority of wage earners are consumers and the general wage deflation of 1920, which immediately followed the fall in the general price level, seemed to have temporarily demoralized the domestic market. Lower wages mean decreased purchasing power and a falling off of effective demand. Likewise, steady wages tend to stabilize economic demand and industrial production.

That the real earnings of the workers have steadily increased in recent years is due to many reasons, chief among which is the stability

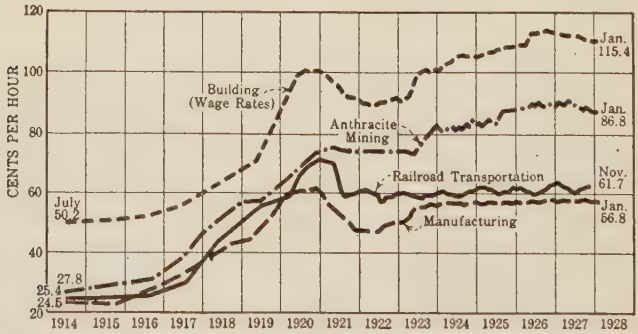
of wage rates accompanied by some declines in the general price level. Again, there has been a stabilization of employment and a reduction of labor turnover. The regularization of employment, if not the reduction of unemployment, has been facilitated by decreased labor turnover.

Another reason for the increased real earnings of the workers is the growing prevalence of bonuses based on production, quality, attendance, promptness, long service, or other industrial standards. Other new sources of the increased workers' income are found in the form of profit sharing and stock subscriptions offered on favorable terms to their employees by numerous companies, in addition to various forms of pensions and insurance projects.

On the other hand, the introduction of new machinery and improved processes has been accompanied by a continuous displacement of labor. Higher real wages but an increased liability to technological unemployment seems to have characterized the new Industrial Revolution in the United States during the past few years.

19. Recent Stability of Wage Rates in Industry.—There has been a relative stability of wage rates since 1923. Although the general price level has remained fairly steady during the past few years, the recent stability of wage rates in manufactures has been even more pronounced.

CHART 29.—HOURLY EARNINGS BY INDUSTRIAL GROUPS (1914–1928)



Reproduced by courtesy of National Industrial Conference Board from Road Maps of Industry.

Recent studies of the National Industrial Conference Board show the relative stability of wage rates or hourly earnings from 1923 to 1928 as contrasted with the situation from 1914 to 1922. In spite of minor fluctuations in industrial production and some changes in the general price level, wage rates in manufacturing have been fairly steady during the past few years.

Chart No. 29, given above, shows the tendency of wage rates, that is, of hourly money earnings from 1914 to 1928, as discovered by the National Industrial Conference Board. It should not be interpreted as an indication of the trend of real wages. This study traces wage rates rather

than weekly or annual earnings. Moreover, they have not been refined in terms of changes in the general price level. But this study does show the recent relative stability of wage rates, that is, of hourly money earnings in industry in recent years. It would follow, therefore, as has already been indicated, that if the general price level declined, real wages advanced. Chart No. 28 on page 155 showed the increase of real wages of factory workers from 1914 to 1928.

These wage findings of the National Industrial Conference Board also show interesting differences in the gains of several groups of industrial workers. The average money wage rates in manufacturing industries follow very closely those of the workers in railroad transportation. Both groups advanced from 1914 to 1920, then experienced a dip between 1920 and 1922, but they have been very stable since 1923. Workers in the building trades likewise experienced an increase in wage rates from 1914 to 1920, a decline in 1921, but they have enjoyed steady gains from 1922 to 1928. Workers in anthracite mining likewise experienced an increase in wage rates from 1914 to 1920, a relative stability in 1921 and 1922, and an increase in wage rates from 1923 to 1928. The relatively higher wage rates of workers in anthracite mining, and especially in the building trades, may be explained in terms of the greater irregularity of employment in those occupations as contrasted with employment in manufacturing and railroad transportation. In spite of higher wage rates, it does not follow that their annual or even weekly earnings have been greater.

20. Summary.—Under the wage system the individual enterpriser directs the course of production and assembles the various factors in production. He advances to labor its share of the product of industry in the form of wages. One of the earliest explanations of wages was the subsistence theory, which contended that the wages of workers tended to a subsistence level. This was due to the principle of diminishing returns from land and to the Malthusian law of population. The subsistence theory of wages was succeeded by the wages fund theory, which regarded wages as a fund of capital advanced to the workers for their subsistence. Wages were determined by the ratio between capital and population.

The modern classical explanation of wages is the marginal productivity theory, which regards the wages of any labor group as measured by the marginal product of that type of labor. The marginal product is represented by the loss which can be attributed to the subtraction of one laborer from a given combination of factors of production. In other words, the wages within a non-competing group are determined by the relative supply and demand forces for that type of labor.

Many labor leaders have stigmatized the marginal productivity theory as a mere commodity theory, which explains the determination

of wages in the same fashion as the determination of the prices of various commodities. Other critics point out the importance of the bargaining factor in the determination of wages. The marginal product of labor is merely the upper limit, beyond which the employer will not go. On the other hand, he may pay labor less than its marginal product because of the ignorance, the immobility, and the lack of organization among other groups of workers.

Real wages represent money wages refined in terms of changes in the general price level. It would seem that money wages gradually adjust themselves to changes in the general price level, but there is a serious lag. Hence, wage earners tend to profit by a falling price level and to suffer by a rising price level. It is also true that the adjustment of money wages to changes in the general price level takes place more rapidly in the case of the organized groups than in the case of the unorganized groups. The advantages and the disadvantages of the lag between commodity prices and service prices is also greater in the case of the salaried groups than of the wage-earning groups.

Social wages, in turn, represent real wages further refined in terms of increased industrial productivity. The subsistence theory of wages is a static concept, in support of which there is little evidence in modern America. On the other hand, the social concept of wages is a dynamic or progressive one. Studies of the course of real wages over a long period of time seem to indicate a general trend toward increased real wages. The worker does seem to be sharing to a considerable, if not a proportionate, extent in our increased industrial productivity. Although glaring economic inequalities and dire poverty have persisted, there is little inductive evidence to support the Marxian contention that the lot of the worker is becoming worse and worse.

The existence of various non-competing groups seems to make a general theory of wages meaningless and a general trend of wages difficult to establish. The real wages of different groups show dissimilar tendencies at the same time, *e.g.*, the salaried groups as compared with the wage-earning groups, and the agricultural groups as compared with the industrialists. Even within these large divisions there are numerous non-competing groups, whose wages show divergent tendencies at the same time. On the whole, the share of the national income going to all service incomes combined has been a relatively constant one, although it has greatly increased in absolute amount. The residual share, representing combined property incomes, has absorbed from one-third to one-half of the total national income.

The determination of wages is difficult because of the existence of unemployment and irregular employment, as well as because of changes in the general price level. Wage rates are no more indicative of actual earnings than are money wages indicative of real wages over a period

of time. Wage rates represent hourly or daily wages, but actual earnings represent the total wages received over a longer period of time, such as a month or a year.

The course of real wages during the past century is uncertain, but the consensus of opinion is that the long run trend has been upward in spite of minor and temporary fluctuations. Great gains were made in the period of falling prices in the closing decades of the nineteenth century. On the other hand, it must be remembered that falling prices are frequently accompanied by business depressions. Hence, this generation of increasing real wages was also characterized by periods of unemployment and temporary recessions in actual earnings.

Just before the close of the past century the general price level began to move upward. Prices rose gradually during the next two decades. This period was one of retrogression in the movement of real wages. For most groups it was one of absolute as well as relative losses.

The period of the World War and the two following years was one of inflation and rapidly rising prices, following which prices fell precipitously in 1920. Although numerous groups of organized wage earners made considerable gains from 1914 to 1920, others experienced losses. The salaried groups suffered greatly during the period of inflation, but recovered somewhat in 1921 and the following years.

The post-war decade has been one of greatly increased industrial production. Although the agriculturalists have suffered somewhat, most service incomes have increased. Remarkable gains in the real wages of workers in industry have been scored in these recent years.

Collateral Reading

Bloomfield, D., "Problems of Labor," pp. 77–111.
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Questions for Discussion

1. What do you understand by capitalism, industrialism, and the wage system?
2. Show the relationship between the subsistence theory of wages and the principle of diminishing returns from land and the Malthusian law of population.
3. Indicate some of the offsetting influences to the principle of diminishing returns and the Malthusian law of population.
4. State the wages fund theory and criticize it.
5. Differentiate between the marginal and the specific productivity theories of wages. Criticize each.
6. What do you understand by the bargaining theory of wages? Can it be reconciled with the marginal productivity theory of wages?
7. What evidence can you present to prove or to disprove the Marxian belief that the lot of the worker is becoming worse and worse?
8. Differentiate between money wages and real wages and between real wages and social wages.
9. Distinguish between wage rates and earnings.
10. What are the effects of rising and falling prices on real wages? Illustrate. Enumerate certain compensating influences.
11. What seems to have been the general course of property and service incomes?
12. Contrast the gains and losses of the wage earners with the salaried groups and the industrialists with the agriculturalists.
13. Show the divergent tendencies of different service incomes during the World War.
14. What reasons can you give for the great recent gains in the real wages of workers in industry?

Topics for Investigation

1. Marxian or labor theory of value.
2. Hobson's theory of wages.

3. Taussig's "discount theory" of wages.
4. King's analysis of real wages from 1850 to 1910, both method and conclusions.
5. Soule's analysis of real wages from 1889 to 1919.
6. Hansen's analysis of the course of real wages from 1820 to 1923.
7. Contrast the analyses of the course of real wages during the World War of the National Bureau of Economic Research with that of Douglas and Lamberson.
8. Douglas' analysis of wages from 1890 to 1924.
9. Recent wage studies of the national Industrial Conference Board.
10. Discrepancies between wage rates and actual earnings in periods of prosperity and periods of depression.

CHAPTER VII

POVERTY AND SUBNORMAL STANDARDS OF LIVING

THE INADEQUACY OF FAMILY WAGES

1. Nature of Poverty and Pauperism.—Poverty is one of the oldest economic maladjustments. The prophets of the Old Testament indicted the rich for the exploitation and oppression of the poor. Revolution and social unrest still have their seeds in poverty and economic inequality.

In a discussion of poverty and pauperism it is necessary that our terms be defined at the very outset. That class in society with the smallest income, and consequently with the lowest standard of living, is usually referred to as the poor. The advance of civilization has increased our economic prosperity and has raised standards of living in general. The well to do classes of modern nations live in a state of luxury undreamed of by the princes and nobles of the Middle Ages. Likewise the poor of today enjoy comforts and conveniences which were not possessed by the corresponding classes in an earlier society.

Nevertheless, at any given time and place there are the relatively rich and the relatively poor. In spite of our economic progress, the poor "in the sense of those in the lowest economic group" have persisted because of the continuation of economic inequality and the division of society into various economic groups. The poor in this comparative sense we shall always have with us, unless society should be modeled on some communistic plan. The elimination of the poor in the sense of the lowest economic group is as impossible as the elimination of the last train coach, which is frequently the victim in railroad wrecks.

On the other hand, the term "poverty" may be used in a less comparative sense to refer to those individuals or families whose incomes are so small, and whose standards of living are consequently so low, that neither health nor working efficiency can be maintained. Although standards of living are also relative, it is possible at any given time and place to determine some minimum standard of decent living. Thus, social pathologists regard poverty as a social disease and the poor as abnormal members of society.

In contradistinction to the poor, the paupers are those individuals in almshouses or those families in their own homes who receive assistance from charitable organizations. The pauper class is part of the social debtor group, because pauperism is essentially a state of dependency. Poverty and pauperism are not synonymous, and those individuals who

live below the poverty line but who are too proud to ask for help should not be referred to as paupers. There is a strong tendency, however, for the poor to become paupers. Indeed, poverty has sometimes been compared to a narrow and treacherous foot path around the morass of pauperism.

The treatment of paupers and other members of the social debtor groups belongs within the domain of sociology. But the economist, as well as the sociologist, must concern himself with the problems of subnormal standards of living and inadequate wages. Objective causes of poverty, such as low wages and unemployment, which lie within the economic organization, are very definitely within the field of applied economics.

2. Extent of Poverty and Pauperism.—The extent of poverty is difficult to determine, for there are no absolute standards by which deviations from the normal can be measured. Nevertheless, it is apparent that poverty is a chronic as well as an acute problem of economic society. Although varying in intensity from time to time and from place to place, it never entirely disappears. Again, poverty displays itself in a more concentrated form in the cities than in the country, and in more aggravated forms in the winter months than in the summer.

Two of the earliest investigations of the extent of poverty were made by Booth in London and by Rowntree in York, England. These early investigators[1] contended that 30.7 per cent and 27.8 per cent, respectively, of the people of these two English cities at that time were living in poverty. If these conclusions were true and typical, about one-third of the inhabitants of English cities a generation ago were living under conditions of poverty.

That the situation has materially improved in British cities is attested by two more recent studies.[2] In 1914 only 12.6 per cent of the cases studied had incomes insufficient to maintain the minimum standard of living prescribed by Rowntree, and in 1925 only 3.6 or 6.5 per cent of the cases then studied were below the same standard. The wide extension of comprehensive programs of social insurance in Great Britain, rather than enormously increased national prosperity, accounts in large part for this striking reduction of poverty in the United Kingdom.

As a result of a similar pioneer investigation in our own country, Robert Hunter estimated in 1904 that the proportion of poverty in our large cities and industrial centers rarely fell below 25 per cent. For the country at large he estimated that the poverty group comprised from 14 to 20 per cent of the entire population. Although the poverty

[1] Booth, C., "Life and Labour of the People," vol. II, chap. 2, 1891.
Rowntree, B. S. "Poverty: A Study of Town Life," chaps. 4 to 5, 1904.

[2] Bowley, A. L. and Hogg, M. H., "Livelihood and Poverty," 1914.
————, "Has Poverty Diminished?" 1925.

rate may be smaller in the rural sections than in the urban, recent investigations make this very doubtful. Urban poverty is rather conspicuous, but there may be dire poverty in many obscure rural communities. For society at large the expression of "the submerged tenth" is probably no exaggeration of the extent of poverty. Indeed, by his inductive field work, Hunter was led to believe in the existence of an iron law of wages for many groups of workers. He contended that the wages of unskilled laborers in this country rarely rose above the poverty line.[1]

The extent of pauperism is as difficult to determine as that of poverty. Many individuals receive various forms of charity of which there is no record. Indeed, the Scriptural injunction is, "Take heed that ye do not your alms before men." At the present time there is a vast army of dependents who are cared for by outdoor relief of which there is no accurate accounting. The society for the organization of charity has vainly attempted to bring order out of this chaos.

Even the records of admission and dismissal in institutions providing indoor relief are often carelessly kept. Again, the almshouse frequently shelters such divergent groups as dependent old folks and dependent children, the crippled and the feeble-minded, and the infirm as well as the shiftless. In 1920 the United States Census placed the number of dependents in our various institutions at somewhat less than a million. The total number of paupers and semi-dependent individuals, however, must surely approximate several millions.

3. Social Attitude toward Poverty.—The older attitude toward poverty was similar to that toward war. Poverty had always existed and would continue to exist as long as the world endured. Almsgiving has been regarded as a religious duty and the profession of begging is of ancient origin. Indeed, it has often been very lucrative.

Philanthropy is necessary for the alleviation of temporary distress, but the elimination of the causes of poverty is much better. The same scientific spirit which has reduced the amount of smallpox, yellow fever, and other physical diseases is now attacking the social disease of poverty. Such is the modern attitude of social science.

A number of social reformers made the error of assuming that poverty had but one cause. Thus, Malthus believed that poverty was due to the pressure of population on the food supply. On the other hand, Karl Marx found its explanation in the ownership of the instruments of production by a capitalistic class and the resulting dependence of the proletariat on the bourgeoisie. Socialism therefore was his remedy. To Henry George, however, poverty was a result of the individual rather than the social absorption of economic rent and the unearned increment from land. In "Progress and Poverty" he points to single tax and the elimination of the landlord as his answer to the problem of poverty.

[1] HUNTER, R., "Poverty," pp. 55–56.

There is no single cause of poverty, for this social phenomenon is a complex of causes which reside in both the individual and his environment. Although low wages are a cause of poverty, there are numerous other causes. Moreover, low wages are a result as well as a cause of poverty. Again, the answer of low wages is inadequate, for the student immediately seeks an answer to the problem of low wages, only to be confronted by problems of population, immigration, productive efficiency of labor, and a host of other questions.

Our present purpose is not to give the cause of poverty, nor even a number of causes, but merely to show the complexity of the problem and to indicate a possible method of approach to various groups of contributory causes. The familiar division into personal causes and environmental causes is helpful, but it should be remembered that this represents merely different ways of classifying the same casual phenomena. Individual causes of poverty frequently indicate merely the incidence of poverty, that is, what individuals constitute the poor. For an explanation of poverty, the student must turn to objective causes in the physical, economic, and social environment.

4. Objective Causes of Poverty in Our Economic Environment.—The physiography and natural resources of a nation condition its prosperity. Thus, certain countries are poor by nature, while others are poor because of a failure to use adequately their abundant natural resources. By the use of improved methods of production and better economic organization, western nations have made a superior adjustment to their environment than in the Orient where dire poverty exists. Active adaptation and technological progress enable a dynamic society to keep ahead of the Malthusian spectre of starvation. Thus, national prosperity is an underlying condition for the amelioration of poverty. It is determined both by our natural resources and our degree of conscious adjustment. In both respects the United States has been fortunate. In Chap. IV it was demonstrated that America may justly be called a "prosperous" nation. Nevertheless, poverty persists in prosperous America.

The objective causes of poverty lie in the economic organization, as well as in the physiography of a group. In spite of our large national income, serious economic inequalities exist which prevent an equitable distribution of our national prosperity throughout all economic groups.

Low wages represent a very important cause of poverty, for the combined wages of all the workers in some families are hardly sufficient to maintain decent standards of living. Later sections of this chapter will be devoted to an analysis of the wages of large groups of adult male workers in relation to the minimum costs of living for a family. It will be seen that the wages of many heads of families are insufficient of themselves to support in comfort, or even in decency, a wife and several children.

Unemployment is another economic maladjustment which reduces still further the meager earnings of many workers and brings a number of them within the poverty and pauper groups. The business cycle is accompanied by periods of economic depression with reduced opportunities for employment. Seasonal unemployment is also productive of temporary poverty and of increased appeals to relief organizations. Strikes and other industrial disturbances have similar effects, but to a lesser degree.

Changes in industry, such as the introduction of machinery, often work considerable hardship on certain groups of workers. This economic adjustment may be illustrated by the Industrial Revolution in England and the present mechanization of industry in the United States. Economic progress is frequently accompanied by such human costs as unemployment and poverty.

A bad system of land tenure, such as that in England during the inclosure movement, in Ireland in the days of "rack rent," or in Mexico in the era of peonage, is also productive of poverty. The United States was formerly fortunate in its abundance of free land. Indeed, the problem of poverty in this country can almost be said to date from the elimination of the frontier and the exhaustion of free land in the West. The rapid industrialization of the United States in the period following the Civil War was mitigated by the possibility of the displaced workers taking possession of a homestead and engaging in farming. Such an opportunity, however, is no longer open to the displaced workers of the present Industrial Revolution.

The rapid growth of our population must be accompanied by a similarly rapid increase of industrial efficiency, if our national prosperity is to be maintained. At the present time our chief weapon against poverty is the increased productivity of industry. Standards of living are merely measures of prosperity, whether of nations or of families. Both are relative terms and afford the possibility of limitless increase. It must be remembered, however, that increased industrial efficiency, like the mechanization of industry, creates a problem of adjustment, although it may be temporary, it works considerable hardship on those individuals who are thrown out of employment.

One of the chief causes of low wages is the relative inefficiency of certain groups of workers and of industry in general. Although agricultural productivity per man is high in the United States our productivity per acre is rather low. Although our industrial productivity has been rapidly increased, there is still a great gap between technological discoveries and existing methods of manufacturing, that is, between what we might do and what we are doing.

The inefficiency, as well as the improvidence, of labor is very apparent and much discussed. But the wastes of our present competitive system

and the incompetence of management are also important. Thus, the Federated American Engineering Societies placed the responsibility for more than half of the existing waste in industry at the door of management rather than of labor.[1]

The inefficiency of labor is due to individual incompetence, indifference, and shiftlessness, as well as to such group policies as the limitation of output. But the decline of craftsmanship and our present extreme specialization make it difficult for a worker to throw himself with enthusiasm into his job. Moreover, he has had many bitter illustrations of the fact that increased production on his part may be accompanied by a cut in the rate of wages rather than by an increase of wages.

The worker has the economic wastes and inefficiency of our productive organization continually thrust before him. Perishable commodities are frequently permitted to spoil by some enterprisers, who prefer to waste these goods rather than to suffer from the reduction of values which would result if a surplus of consumable goods was thrown on the market. Arbitrary changes in fashion also result in a great waste of material to the producer and perhaps in unemployment to the worker. In view of such characteristics of our modern economic system, it may be well to be less severe in our criticism of uneconomic labor policies and practises, such as soldiering on the job in an attempt to make work. The worker continually sees about him the acquisition of wealth without commensurate production, the existence of glaring economic inequalities, and the wasteful idleness of the leisure class.

In the last place, the pecuniary motive, rather than that of social welfare, has dominated our economic organization. Management has been even more indifferent to human wastes than to economic wastes. Social insurance, for illustration, has made but little headway in the United States, in spite of the fact that it has been Europe's chief weapon in her war against poverty. It has just been demonstrated how the development of social insurance in England decreased the poverty rate in that country. Although most of our states now have workmen's compensation laws against industrial accidents, nevertheless, sickness insurance, unemployment insurance and old-age pensions are almost unknown in this country as governmental functions. Hence, dire poverty has persisted in spite of our great national prosperity.

5. Objective Causes of Poverty in Our Social Environment.—Large families and the inability to give the numerous children proper educational advantages perpetuate the problem of low wages in the lower income groups. Their birth rate is generally higher than in those economic groups which can better afford large families. The tendency of population to grow from the bottom more rapidly than from the top

[1] "Waste in Industry," by the Committee on the Elimination of Waste in Industry of the Federated American Engineering Societies, p. 9.

is the chief explanation of the social pyramid of non-competing economic groups. Unrestricted immigration is also injurious to the American worker, if it tends to reduce his wages and to lower his standards of living. Birth control and the restriction of immigration are powerful weapons against poverty and inadequate wages.

Unhealthy living conditions, as well as unsanitary and dangerous working conditions, are productive of sickness and sometimes of the death of the principal bread winner. Low standards of living are causes of poverty as well as a result. The relationship is a reciprocal one which is so common in all social problems. Low standards of living, ill health, industrial inefficiency, and low wages represent a vicious circle. The public health and safety movements are doing much toward the reduction of poverty.

The social environment of city slums and congested industrial areas may be as dangerous to social ideals as to physical health. The saloon and vicious amusement places have often led to the dissipation of the workers' financial and moral reserves. The degeneracy of family life is apt to be accompanied by the absence of economic ideals of thrift and steady industry. Social workers have discovered that the restoration of a healthy family life is essential to the restoration of economic independence.

Unwise philanthropy, rather than the scientific relief measures of organized charity, is also a cause of poverty. So long as indiscriminate giving to professional mendicants flourishes, begging will be more profitable than working.

Educational progress is important in the modern war against poverty. Statistics show a high rate of illiteracy and general ignorance among the poor and the paupers. The education of the normal individual as well as the subnormal should include among other ideals that of economic independence. Lack of industrial training and vocational guidance in our schools has been a contributory cause of poverty and crime. Until comparatively recent times it was difficult for a boy to receive training in a trade at public expense unless he had committed a crime and was sent to some reformatory.

Defects in the political as well as in the economic and social environments produce poverty. Political corruption prevents the passage of desirable legislation or the adequate enforcement of existing laws. The ward boss, rather than organized charity, may give coal and wood to the voter who is out of work, but the citizen whose vote is purchased so easily is sacrificing ultimate social welfare to his own immediate advantage.

Legislation is no panacea for all social ills; far more is necessary than wise laws and their proper enforcement. Nevertheless, they form an essential part of any scheme of social reform. The attitude toward government is changing and its sphere of activity is constantly widening.

The introduction of the factory system and the growing interdependence of all members of society have made labor legislation imperative. The former attitude of *laissez-faire* has been abandoned, and the government has actively interfered in the matter of working and living conditions. It has attempted to regulate such matters as hours and wages, and it has sought to prevent the exploitation of women and children. It has sought to eliminate causes of poverty and to raise subnormal standards of living by such drastic devices as minimum wage laws.

6. Subjective Causes of Poverty.—There are individual as well as objective causes of poverty, and a proper analysis of the problem requires an examination of the factor of heredity as well as that of environment. It is obvious that poverty is an acquired status and not hereditary. On the other hand, physical or mental degeneracy, to which poverty may be directly attributed, may be inherent in the germ cell and hence hereditary. This fact will help explain why pauperism may run in a given family from one generation to another. It is easy, however, to attribute causes of poverty to the physical heredity rather than to the social heredity of an individual, and to personal rather than environmental causes.

Inherent degeneracy or feeble-mindedness may express itself in various ways in succeeding generations, such as in pauperism, crime, drunkenness, or in other forms of vice. Although none of these things are strictly hereditary, there is some inherent weakness which produces them. Certain stocks in our population are biologically inferior, and their representatives possess little physical stamina or mental strength. Other individuals in the social debtor classes may be regarded as inferior variations of apparently normal stock.

Dr. Goddard[1] has stressed the role of feeble-mindedness in the problem of poverty and all programs of social reform. He estimated that half the inmates of almshouses were feeble-minded. As feeble-mindedness, unlike insanity, is hereditary rather than acquired, the elimination of the feeble-minded is not so much a problem of education as of eugenics. The segregation of the feeble-minded and other individuals of degenerate stock into custodial institutions and the prevention of their legitimate or illegitimate children will greatly help to reduce the amount of pauperism and poverty.

Disease is another important cause of poverty. Dr. Devine[2] has gone so far as to state that 75 per cent of poverty may be attributed to disease and not 25 per cent as is commonly supposed. It is certain, however, that from 25 per cent to 40 per cent of all relief cases indicate sickness as the chief or an important contributory cause. Sidney and Beatrice Webb, writing of three or four million destitute persons in the

[1] Goddard, H. H., "Feeble-mindedness."

[2] Devine, E. T., "Misery and Its Causes."

United Kingdom in 1912 declared that "with regard to at least one-third of these—we might almost say one-half—the recruiting sergeant who brings them in is sickness, the sickness that so far as concerns three-fourths of the population, we have proven to be preventable."[1] It should be remembered, however, that sickness or physical disability is often merely the individual expression of such objective causes of poverty as unsanitary living conditions, improper housing, vicious working conditions, and dangerous trades.

Although the importance of intemperance as a cause of poverty has often been exaggerated, it cannot be ignored. Crime and the imprisonment of the bread winner are other factors. Desertion by the head of the family also appears in many cases of dependency in our large cities. Death of the main support appears in over 10 per cent of relief cases and indicates the desirability of widows' pensions. Old age is a still more frequent cause of pauperism, which affords a powerful argument for old-age pensions.

Shiftlessness and laziness are individual characteristics which contribute to poverty and pauperism. However, a number of cases so classified formerly have proved under modern scientific examination to be due to an undervitalized physical condition and not to mere individual laziness. The alleged shiftlessness of a portion of our eastern mountaineers, many of whom came from a splendid and energetic racial stock, was later discovered to be due to the presence of hookworm in their local physical environment. Malaria may play the same role in a mosquito-infested section. Prosperity is conditioned as much by a healthy and stimulating climate as by abundant natural resources. Likewise, poverty may be due to an unhealthy or enervating climate, as well as to the niggardliness of nature.

7. Meaning of Standard of Living.—The poor group has been defined not merely as those classes receiving the smallest incomes, but also as those families whose incomes are too small to permit the maintenance of a decent standard of living. Consequently, it is necessary to analyze what is meant by the expression "standard of living" and to see what constitutes at a given time and place a minimum standard of living. After that has been done, an effort will be made to test the wages of adult male workers, in order to see whether or not they are sufficient to permit fathers to maintain their families in a comfortable or decent standard of living on their own wages.

A standard of living may be defined as a measure of economic consumption, that is, as the amount of income which an individual or a family consumes. It may be regarded as the quantities and qualities of food, clothing, shelter, and various other commodities and services, which an individual, a family, or group consider necessary to happiness.

[1] WEBB, SIDNEY and BEATRICE, "The Prevention of Destitution," p. 16.

Standards of living are generally estimated in terms of money, and experts speak of the financial costs of maintaining various standards of living in different times and places. The estimate is generally based on the family rather than on the individual expenditure, for the family is the usual unit of economic consumption.

Economic goods may be divided roughly into three groups—necessities, comforts, and luxuries. Exact social measurements are impossible, and standards of living, as well as these three groups of consumption goods, gradually fade into each other like the colors of the spectrum. The standard of living of an unskilled laborer may include little more than the necessities of life, while that of his employer may be made up of luxuries. Moreover, what is a necessity to one individual may be regarded as a luxury by another. There is one standard of living for Mrs. Wiggs of the Cabbage Patch and another for her friend, the Christmas Lady. Between these two extremes are innumerable variations involving all degrees of comforts.

8. Its Relative Nature.—Not only do standards of living vary among different income groups, but also among different nations. Thus, we hear of an American standard of living as compared with a European or a Chinese standard of living. Standards of living also vary from age to age, and the comforts of a middle-class family in England today are very different from those of the Elizabethan period.

There is no such thing as a standard of living in an absolute sense. In both its qualitative and quantitative aspects a standard of living is a relative concept. There is not one standard of living, but there are many. They vary greatly from time to time and expand as an individual or a group acquires additional desires and purchasing power.

A standard of living is both a personal and a social concept. Although each individual has personal tastes and desires, they are chiefly the result of his physical and social environment. Thus, the Esquimo devours the tallow candles of the explorers and the people of certain Mediterranean countries regard snails as a delicacy.

A standard of living is essentially those things to which we are accustomed. Dissatisfaction and unrest come only after a comparison with other and higher standards of living. Thus, the savages of Africa never realized their blackness until the white man appeared in their midst. People do not miss what they have never enjoyed. If it were not for this fact and for the existence of tremendous mental and social inertia, economic unrest would be more acute and political revolutions more common. It is significant that most revolutions have been preceded by an intellectual awakening.

Poor people may be happier than rich people, because happiness is subjective and essentially a state of mind. Hence, the philosopher may object to a commodity measurement of welfare. The economist, how-

ever, finds it impossible to measure any such subjective concept as happiness. Moreover, for most individuals wealth is one very important element in welfare. Consequently, the economist is forced to content himself with measuring standards of living in terms of the wealth and economic services consumed. Prosperity is commensurable, but happiness is not. Wealth is definable, but welfare is not. Hence, our materialistic concept of standard of living. Although man does not live by bread alone, the economist relinquishes spiritual and subjective elements in standards of living to other students.

9. Conditioning Elements.—Standards of living are influenced both by what one desires and by what one can purchase. Human wants are on one side of the scale and income or wages on the other side. Differences in incomes produce differences in standards of living. Economic inequality permits the rich man to enjoy many luxuries, whereas the poor man cannot obtain the mere necessities of life.

The general price level is a third conditioning element. Thus, economists differentiate between real wages and money wages. A miser, like Silas Marner, might find pleasure in counting his gold, but what a normal individual desires is the goods or services which he can enjoy.

Price inflation requires an equivalent increase in money wages if the customary standard of living is to be maintained. It has been said that prices go up the elevator, while wages slowly climb the stairway. On the other hand, price deflation, which increases the purchasing power of the workers' wages, is often accompanied by an economic depression with consequent loss of employment. Because of the close connection between price levels and standards of living, Professor Commons has called the fluctuation of the currency our greatest labor problem.

10. Characteristics of Economic Wants.—Just as there are great differences in income, so there are great differences in individual desires. The satisfactions that different individuals receive from the consumption of the same economic good or service differs enormously. Individual tastes vary, and consumption values are subjective.

The measurement of standards of living is rendered difficult by the diversity and varying intensity of human wants. One workman may regard tobacco as a necessity and curtail his consumption of clothing in order to gratify this desire. On the other hand, a factory girl may regard silk stockings and fine clothes as essential parts of her standard of living. Consequently, she may stint her food allowance in order to purchase stylish garments. One successful business man may desire to accumulate rare works of art, while another strives to build racing automobiles and pleasure yachts.

Human wants, however, reflect not only individual differences but also social differences. Thus, the wants of a given individual are determined not only by his personal desires but also by the standards of

living of the group to which he belongs. A man may choose his own collars and neckties, but the wearing of such articles of clothing is predetermined for him. In short, individual wants are largely socially conditioned.

A third characteristic of human wants is their power of infinite expansion. Civilization has brought to primitive peoples such new wants as alcoholic liquors, cigarettes, cotton cloth, and talking machines. As the income of an individual increases, his wants develop proportionately. The newly rich audibly wonder how individuals can live without certain things to which they themselves have scarcely become accustomed.

If the consumption of a single economic good continues, the principle of diminishing utility begins to operate. Hence, greater equality of income and increasing variety of wealth are desirable. It is also true that a more nearly equal division of the national income will permit an increase of total consumption utility for society as a whole.

11. Family Budgets.—Just as a nation or city must balance its expenditures against its receipts from taxation, so the average family must balance its purchases against the family wages. Any attempt to do this systematically may be called making a budget.

The study of economic consumption was formerly neglected, but of recent years a number of excellent studies have been made of family budgets. The commonly accepted unit of measurement is the family of five, consisting of father, mother, and three dependent children.

The largest single item in the family budget has been found to be the expenditure for food. This ranges from about 50 per cent of the entire wages of the lowest income group to about 25 per cent of the total expenditure in the case of families in moderate circumstances. Rent and clothing vie for second place in the expenses of most families studied, and each averages from 15 to 18 per cent of the total wages. The amount spent for rent increases as we go up the social scale, but the proportion of the total income so consumed is remarkably constant. In the fourth place is the expenditure for light and heat, which varies from 5 to 8 per cent of the total cost of living. Transportation may or may not be an important item in the expense account, according to the locality considered.

The amount left for all other purposes varies from nothing in the case of the very poor to almost 50 per cent in the case of those in moderate circumstances. It is understood that the amount spent for the necessities of life, such as food and clothing, increases as we ascend the various income groups. It is important, however, to observe that the percentage of the total income spent for such purposes steadily declines. As we go from the poorer groups to those in comfortable circumstances, the proportion, as well as the amount, spent for all other purposes, steadily

increases. Indeed, this margin of expenditure above the actual necessities of life is regarded as the test of a desirable standard of living. In it are included expenditures for recreation, amusement, insurance, saving, and incidentals.

A German statistician by the name of Engel in his study of Prussian family budgets was the first to point out the varying proportions of income spent for various items by different income groups. Hence, this relationship is known as Engel's law. It states those generalizations concerning consumption which have just been observed. The higher income groups spend more for the necessities of life than do the poor groups, but the relative part of the entire budget is less. On the other hand, their greater income permits them to spend relatively, as well as absolutely, more for incidentals and comforts than do those in poorer circumstances.

12. Variations in Standards of Living.—A study of family budgets reveals other interesting differences in standards of living. As a rule the standards of living of our native communities are higher than those of our foreign born, and the standards of the white communities are higher than those of the colored. These differences in standards of living reflect the differences in wages.

Within the same income group, however, there are interesting differences in family budgets. Some immigrant groups, for example, spend relatively more on food and others relatively more on clothing. Certain groups are very improvident, while others are parsimonious. Within a great city there may be immigrant colonies and negro settlements which afford interesting comparisons in standards of living. Each group clings to its old customs, as can be seen in their characteristic foods, clothing, and forms of recreation. The new generation shows its Americanized character by the qualitative and quantitative changes in its standards of living.

City and country also afford an interesting comparison. City workers formerly spent a relatively greater portion of their wages on clothing than did those in the country. Thus, a comparative study of their family budgets would show different sets of consumption values. In general, the cost of living in the country is lower than that in the city. Consequently, a higher standard of living can be maintained on the same monetary income. A small frame house can be rented in the country for the same amount needed for a few rooms in the city. Again, the cost of some foods is relatively lower in the country. The development of modern marketing facilities, however, has tended to make the purchases of some foods not only more convenient but also actually cheaper in the cities than in the surrounding country. Investigators have likewise found interesting differences in the costs of living among various cities.

13. Classification of Standards of Living.—Any attempt to classify standards of living is bound to be rather arbitrary. Nevertheless, numerous studies of family budgets have attempted to distinguish among different types of standards of living. Thus, there is first the pauper-poverty standard of living which represents a condition barely above dependency. There is no sharp line between it and the social debtor classes. In the second place, there is a minimum of subsistence level which implies merely an animal existence with just enough to satisfy the chief physical wants. It is a rather theoretical concept to which economists have sometimes resorted. In the third place, there is the minimum of health and comfort standard. It implies an income sufficient to maintain health and working efficiency with some provision for comforts and social insurance. It is the first division definitely above the poverty group. In the fourth place is what has been termed a "standard of health and decency." It has also been termed a "normal standard" of living.

A number of attempts have been made to draw up minimum standards of living and to express them in terms of money. The quantity budget, however, defines the amounts of food, shelter, clothing, and miscellaneous commodities and services for the maintenance of a desired standard of living, as contrasted with the cost budget which expresses the same items in monetary terms. A normal standard represents a higher social ideal than a minimum standard.

14. Minimum Quantity Standard.—A pioneer study of the minimum quantity standard of living, made by the United States Bureau of Labor Statistics in 1918 and 1919, was based on a family of five (to be exact 4.9 persons or the equivalent of 3.3 adults). Its requirements as to a minimum quantity standard of living may be summarized as follows: (1) a sufficiency of nourishing food, with especial reference to the health of the children; (2) housing in low-rent neighborhoods with the minimum number of rooms consistent with health and decency; (3) the upkeep of household equipment; (4) clothing of substantial quality but with slight regard for fashion; (5) miscellaneous provisions for such items as carfare, insurance, medical attention, modest contributions to church and fraternal organizations, and limited expenditure for amusement.[1]

The following table of the United States Bureau of Labor Statistics gives a similar standard of living expressed in monetary units. It is interesting to note the relative budgetary importance of the various items and also to see how the increase in prices from 1914 to 1919 caused an increased expenditure. It will be seen that in 1919 it took $1,954 to purchase the same amount of commodities as could be purchased in 1914 for $1,000.

[1] U. S. Bureau of Labor Statistics, "Tentative Quantity and Cost Budget," p. 6. See also *Monthly Labor Review*, pp. 1–18, June, 1920.

MINIMUM STANDARD OF LIVING[1]

Item	December, 1914		Percentage increase in cost 1914 to 1919	December, 1919	
	Amount	Percentage		Amount	Percentage
Food	$ 430	43.0	91	$ 821	42.0
Clothing	130	13.0	198	387	19.8
Rent	180	18.0	25	225	11.5
Fuel and light	50	5.0	52	76	3.9
Furniture	50	5.0	175	138	7.1
Miscellaneous	160	16.0	92	307	15.7
Total	$1,000	100	95	$1,954	100

[1] *Monthly Labor Review*, p. 3 July, 1920.

15. Changes in the Costs of Living.—The United States Bureau of Labor Statistics has kept for the past few decades a carefully computed index of the cost of living. The base is the price level of 1913. The following table gives these estimates for the past 20 years: These yearly estimates of the United States Bureau of Labor Statistics are pictured graphically in Chart No. 30, on the opposite page.

INDEX OF THE COST OF LIVING[1]
(1913 = 100 per cent)

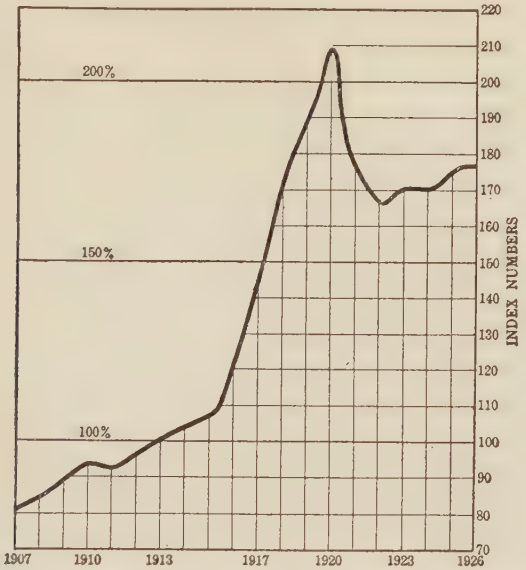
Year	Index of cost of living	Year	Index of cost of living
1907	82.0	1917	142.4
1908	84.3	1918	174.4
1909	88.7	1919	188.3
1910	93.0	1920	208.5
1911	92.0	1921	177.3
1912	97.6	1922	167.3
1913	100.0	1923	171.0
1914	103.0	1924	170.7
1915	105.1	1925	175.7
1916	118.3	1926	175.2

[1] Index of U. S. Bureau of Labor Statistics, *Monthly Labor Review.*

Costs of living rose rather steadily in the years immediately before the World War and in the first 2 years of this great conflict. In 1916, 1917, and 1918 the costs of living increased at an accelerated rate. Moreover, they continued to increase rapidly in 1919 and 1920. But from 1920 to 1922 there was a rather precipitous fall in the costs of living.

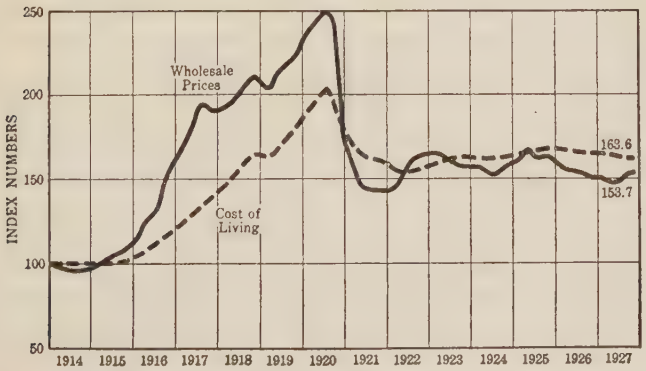
From 1922 to 1925 there was again a slow increase. At the peak of inflation in 1920 the cost of living was over twice that of 1913 or the

CHART 30.—CHANGES IN COSTS OF LIVING (1907–1926)
(Base—Level of 1913 = 100 Per Cent)



Prepared from index of U. S. Bureau of Labor Statistics. See table on the opposite page.

CHART 31.—WHOLESALE PRICES AND COSTS OF LIVING (1914–1927)
(Base—Level of 1914 = 100 Per Cent)



Reproduced by special permission of National Industrial Conference Board, "Wages in the United States, 1914–1927," p. 11.

level just before the outbreak of the World War. In 1925 and 1926 the costs of living were only about 75 per cent greater than in 1913.

Similar changes in the costs of living during the World War and during the post-war period were discovered by the National Industrial Conference Board. The two studies differ merely in degree and not as to the general tendencies of costs of living. The price index of the National Industrial Conference Board is based on the price level of 1914. Hence, its findings are not exactly comparable with those of the United States Bureau of Labor Statistics.

The study of the National Industrial Conference Board shows that costs of living rose rapidly from 1914 to 1920, in which year the peak of high prices was reached, when monetary costs of living were slightly more than twice as great as in 1914. Costs of living fell precipitously in 1920 and 1921. In 1922, however, according to the National Industrial Conference Board, they were still more than 50 per cent greater than in 1914. From 1922 to 1927 changes in the costs of living appeared to be relatively minor. According to this study costs of living in 1927 were 63.6 per cent greater than in 1914.

Chart No. 31, on page 179 traces the changes in the costs of living and in wholesale prices as found by the National Industrial Conference Board. An interesting lag may be seen between the wholesale price level and the cost of living, represented chiefly by the retail price level.

16. Early Studies of Wages and Costs of Living.—Numerous attempts have been made to estimate the sum necessary to maintain at a given time a decent standard of living for an American family. These estimates have been paralleled by statistical surveys of the wages received by various groups of workers. Although these findings differ from time to time, from locality to locality, from industry to industry, and from investigator to investigator, there is one common revelation, namely the persistent inadequacy of the wages of a large portion of our laboring population to maintain decent standards of living for a family. Considerable poverty has existed in prosperous America.

It is only by tracing this problem over a number of years, of rising prices and falling prices, and during periods of prosperity and periods of depression, that the inadequacy of many family wages can be seen. Let us briefly review this situation.[1]

The Rev. John A. Ryan[2] studied costs of living during the last decade of the nineteenth century and estimated that in 1903 the sum of $600 was the minimum upon which a decent standard of living might be maintained by a family. His study of the wages of approximately four

[1] The various studies mentioned here are listed in the references at the close of the chapter. An interesting general survey of the previous studies of wages and costs of living may be found in the article by A. Epstein entitled "Have American Wages Permitted an American Standard of Living?" in the *Annals* of the American Academy of Political and Social Science, September, 1921.

[2] Ryan, J. A., "A Living Wage."

million adult male workers in manufacturing and transportation convinced him that over half of them (from 51 per cent to 85 per cent) were receiving inadequate wages to support a family in decency.

In 1904 Robert Hunter[1] compared the various estimates of minimum standards of living and stated that $624 was not excessive for a family of five in New York City. In order to be conservative, he placed the sum of $460 a year as the minimum for such a family in smaller cities and industrial communities. Any less sum, he contended at that time, would result in subnormal standards of living and conditions of poverty. Other monetary estimates of a minimum standard of living at the same time were considerably higher, ranging up to $600 and $700.

At the same time, 1903 to 1904, a study was made by the Census Bureau of the wages of over three million workers in manufacturing, of whom over two and a half million were men.[2] Of these actual or potential heads of families, 62 per cent earned less than $12 a week. In other words, if they worked full time, failing to lose a single day through unemployment or illness, they could earn only $624 a year. From this investigation it was discovered that over one-fourth of the total number of male wage earners over sixteen years of age earned less than $420, 46 per cent earned less than $520, and over 70 per cent less than $780. The average yearly earning was found to be only $575. If these wage earners were the heads of families solely dependent on their earnings, they were living on the border of poverty. If not within the poverty group, their wives or children were forced to seek employment because of the inadequacy of the wages of the heads of their families.

In 1907 Mr. Chapin reported that $825 was sufficient to support an average family of father, mother, and three children under fourteen years of age in New York. In 1909, however, he declared that $800 was not enough to permit a decent standard of living, but that $900 or more would permit the maintenance of "a normal standard, at least as far as the physical man is concerned." But of the 400 New York families studied by Mr. Chapin, 45 per cent received less than $800 and 63.7 per cent received less than $900.[3]

At about the same time, 1908, Scott Nearing estimated that one-third of the male factory employees in Massachusetts earned less than $500, over one-half earned less than $600 and nearly three-fourths earned less than $700. His study of five leading industries of New Jersey, as well as of the slaughter houses of Kansas City, indicated similar results and confirmed his belief that the problem of low wages was a national and not a local problem. According to Dr. Nearing, 5,000,000 industrial workers in the United States were earning annually only $600 or less.

[1] Hunter, R., "Poverty."

[2] Census of Manufactures, part IV, pp. 645–648, 1905.

[3] Chapin, R. C., "The Standard of Living in New York City," pp. 236 and 246.

Although the ranks of unskilled labor included a large number of unmarried men, for a disproportionately large share of foreign immigrants were unmarried, a considerable portion of these low-waged men were trying to support families. Dr. Nearing further contended that 65 per cent of the workers in the steel industry of Pittsburgh, "the city of a thousand millionaires" were classified as unskilled laborers with wages at that time ranging from a little over $400 to a little over $500 a year.[1]

A Congressional investigation 2 years later of the steel industry indicated that Dr. Nearing had not greatly exaggerated the situation. It revealed that in 1910, 8 per cent of the workers in the iron and steel industry were paid less than $500 a year and 60 per cent less than $750. A wage less than that necessary to maintain a minimum standard of living seemed formerly to have been the rule also among many clothing workers of New York tenements, among the stock yard laborers of Chicago, and in the industrial towns of Pennsylvania.

In 1911 Mr. Streightoff[2] estimated that 1,000,000 men workers in manufacturing industries were receiving less than $400 yearly, 2,000,000 less than $500, and 4,000,000 less than $600. He estimated that it required from $600 to $650 during that year to maintain a decent standard of living. Hence, the families of many unskilled laborers were living in poverty and mothers and children were forced into industry to supplement such meager wages.

In 1913 Dr. Nearing[3] concluded that a man, wife, and three children seeking to maintain a decent standard of living required $700 a year in southern states and $750 in northern states. In larger cities where rents were higher $100 a year more were required. His estimate of 1913 is typical of others of the same year.

Nearing's study of the wages received by many workers at that time showed their inadequacy. This belief was confirmed by other later independent studies. Thus, the Pennsylvania Department of Labor and Industry estimated that the average male wage in 1914 was $14.40 a week or $720 a year. In 1915 Lauck and Sydenstricker stated that four-fifths of the heads of families investigated received less than $800 a year. The New York Industrial Commission gave the average wage in that state in 1915 as $12.85 a week or $668 a year.

The United States Commission on Industrial Relations, Report of 1916, estimated that from one-third to one-fourth of the male industrial workers over eighteen years of age were receiving less than $15 a week; two-thirds to three-fourths less than $15 a week; and only one-tenth of them were receiving over $20 a week. During the same year the investigations of Carlton Parker led him to declare that half of the wage

[1] NEARING, S., "Social Adjustment," chap. 4.
[2] STREIGHTOFF, F. H., "The Standard of Living."
[3] NEARING, S., "Financing the Wage Earner's Family."

earners' families in the United States had an income below the requirements of subsistence.

The student is advised not to memorize these ephemeral estimates of standards of living, nor the details of the various wage studies which accompanied them. Some of the most typical have been quoted from the vast number of such studies which have been made by private and governmental agencies. There is overwhelming testimony to the fact that the wages of a considerable portion of our gainfully employed population have been inadequate to maintain decent standards of living for a family. Hence, poverty has flourished, as well as the problem of women and children in industry.

17. Standards of Living during the Period of Inflation.—Costs of living which had been slowly rising in the opening years of the twentieth century rose still more rapidly after the outbreak of the World War in 1914. With the entrance of America into the war in 1917 prices in this country jumped enormously. Estimates of minimum standards of living became obsolete within a few months.

Professor Ogburn[1] made an analysis of the standard of living of governmental employees in the District of Columbia in 1916. He concluded that an average family of man, wife, and three children were in debt if the annual income was less than $1,155. But prices continued to rise and in 1918 he estimated for the National War Labor Board that $1,386 was essential for a minimum subsistence and $1,760 for minimum comfort.

The Philadelphia Bureau of Municipal Research stated in December, 1917, that the minimum cost of living for a family of five required $1,200. Prices rose so rapidly, however, that in the following autumn of 1918 they were required to revise this same estimate in goods and services to a monetary expression of $1,636.79.

In November, 1918, the United States Bureau of Labor Statistics estimated that the minimum necessary for subsistence in the eastern cities, where the government was frantically engaged in ship building, was $1,434.[2] In the same year the National War Labor Board, as just stated, drew up a "minimum comfort" standard which required $1,760 for a family of five.

In 1919 the National Industrial Conference Board, an organization of employers, reached the conclusion that in Massachusetts about $1,386 was necessary for the support of this sized family. A more liberal budget, which included some provisions for insurance, was fixed at about $1,658. On the other hand, a declaration of the Amalgamated Clothing Workers at that time insisted that $2,500 was essential for a family income.

[1] Ogburn, W. F., "Movement of the Cost of Living and Wages," *Annals* of the American Academy of Political and Social Sciences, vol. LXXXI, 1919.

[2] *Monthly Labor Review*, August, 1919.

During the peak of high prices in May, 1920, W. J. Lauck, as an economist before the United States Railway Labor Board, declared that "not one penny less than $2,500 a year was the minimum necessary for a family of five to maintain itself upon, even in decent poverty."

A survey of the increases in money wages during this period of rapidly rising prices is even more bewildering than one of prices and minimum estimates of standards of living. It was demonstrated in the last chapter that there is considerable difference of opinion as to the course of real wages during the war. The money wages of different economic groups increased at such varying rates and in such different amounts that any sweeping generalization is misleading, if not inaccurate.

In spite of our seeming war-time prosperity a number of individuals received insufficient income to maintain former standards of living, and some families suffered actual poverty. Perhaps the strain was greatest on the salaried groups, whose incomes increased but slightly and whose real wages therefore declined. Considerable retrenchment was necessary in customary standards of living. Again, certain groups of unorganized manual laborers received insufficient real income to maintain minimum standards of living.

The idea that all workers received fabulous wages during the war is as incorrect as it is common. This economic legend may be traced to the great rise in prices which required unprecedented monetary expressions for the wages of common labor. Perhaps it is also due to the extravagant consumption of certain groups of workers who did enjoy temporary prosperity at a time when other groups were suffering relative hardships. In the last chapter it was shown that great discrepancies appeared in the course of real wages during the period of inflation in the case of wage earners and the salaried groups, and in the case of the organized and the unorganized workers. There were also important differences in wages in "essential" and "non-essential" industries.

Professor Fitch[1] selected a group of industries in which over 90 per cent of the workers were males over sixteen years of age. He then computed an average wage in each industry for the year 1918 based on the average weekly wages, as presented by the Industrial Bulletin of the New York Department of Labor for each month of that year. The result showed yearly wages for 1918 ranging from slightly less than $954 to over $1,660. The average and median wages were about $1,200. In only three of the sixteen industries studied, namely, the iron and steel industry (the former low wages of which have been noted), railway shops, and ship building, did the annual wages of adult male workers equal or surpass Prof. Ogburn's estimate of $1,386 as the cost of a bare subsistence in 1918. None of them reached his comfort level of $1,760 for that year.

[1] Fitch, J. A., "The Causes of Industrial Unrest," pp. 46 and 47.

The investigation of the National Bureau of Economic Research[1] also revealed the fact that the average incomes in mining and transportation, occupations which are predominately those of adult males, were $1,283 and $1,286, respectively, in 1918. Hence, they were below the cost of subsistence of a family and far below the comfort level.

The general findings of the National Bureau of Economic Research as to incomes received in 1918 indicated that the prewar problem of inadequate wages had not been eliminated, no matter what the trend of real wages had been. Thus, there were about 14,000,000 individuals receiving incomes of $1,000 a year or less, about 12,000,000 more receiving incomes between $1,000 and $1,500, and only 5,000,000 individuals receiving incomes between $1,500 and $2,000.

It is safe to assume that most of these small incomes represented wages. On the other hand, a large number of these receivers of small incomes were women and children rather than adult males. Nevertheless, out of the 32,000,000 individuals whose incomes in 1918 were $2,000 or less, a considerable portion were married men with dependent families.

Early in 1919 the United States Bureau of Labor Statistics[2] made an extensive study of wages in twenty-two fairly typical manufacturing industries throughout the country. The average weekly earnings of these male employees were found to vary from slightly under $20 to slightly over $30 a week. It is interesting to note that the highest paid group now consisted of the well-organized clothing workers who had formerly been unorganized and underpaid. The average weekly earnings of the male employees in most of the industries studied in 1919 were somewhere in the twenties. The yearly average was about $1,330.

A similar investigation of miners' wages at the same time by the same body showed interesting variations but about the same general yearly average. Irregular employment and underemployment in the mines reduced high wage rates to rather meager earnings. Thus, the problem of inadequate wages had not been eliminated in 1919 in industry or mining. The incomes of many heads of families were still insufficient of themselves to maintain a subsistence standard of living and generally far from sufficient to maintain a comfort standard of living for a family of five, according to the estimates of Prof. Ogburn for the preceding year, in which the general price level was even lower than in 1919.

Prof. David Friday[3] estimated that the average annual wage in 1919 was about $1,300, which sum agreed approximately with that of the Bureau of Labor Statistics. Professor Friday further contended that wages in 1919 had increased to a little over 200 per cent of those in 1913.

[1] National Bureau of Economic Research, "Income in the United States," p. 102.

[2] "Industrial Survey in Selected Industries in the United States in 1919," *Bulletin* No. 265, pp. 37–38, May, 1920.

[3] Friday, D., "Profits, Wages, and Prices."

In other words, money wages had more than doubled in these 6 years. However, Prof. Friday's study was confined to the industrial establishments of Pennsylvania and Massachusetts. Like the survey of the United States Bureau of Labor, salaried groups, such as clerks, policemen, and postmen, were omitted. These studies were confined chiefly to wage earners in industry. It has been demonstrated, however, that the salaried groups were those which suffered most acutely during this period of inflation.

Professor Friday contended that wages had advanced in these years more rapidly than the costs of living. The United States Brueau of Labor Statistics, however, estimated that wages were only 84 per cent greater in 1919 than in 1913, while articles of food were over 88 per cent higher (see p. 178 of this text).

Professor Friday further contended that the problem of inadequate wages and low standards of living was primarily one of increased production rather than one of distribution. This belief was based on his assertion that if all the large incomes were divided equally among all the population, even then the per capita or the per family income would not be sufficient to afford relief from the inadequate standards of living. Such a position, however, is very dubious. In Chap. IV it was demonstrated that according to the careful estimates of the National Bureau of Economic Research the national income was adequate in amount to permit a decent standard of living to be enjoyed by all American families. Although economic prosperity is conditioned by increased productivity, it is difficult to see how the present inequalities of income can be ignored or minimized. Poverty is a problem of inequitable distribution, as well as one of increased production.

18. Recent Tendencies in Costs of Living.—The decline of the general price level and the fall in the costs of living, which began in May, 1920, rendered obsolete the estimates of a few months before of a minimum standard of living. Thus, the Labor Bureau, Inc., revised its monetary estimate of its health and decency budget from the November, 1920, estimate of $2,632.68 for New York to a March, 1921 estimate of $2,333.99 for the same city. In 1922 Prof. Ogburn[1] estimated that $1,300 would afford a subsistence minimum for a family in New York or Chicago.

One of the most recent studies of the cost of living is that of the National Industrial Conference Board.[2] It was published in 1928. Data were obtained by personal investigation in the four large cities of Boston, Cleveland, New York, and Philadelphia; in the four medium-sized cities of Dayton, Ohio; Reading, Pa.; Springfield, Mass.; and Syra-

[1] OGBURN, W. F., "The Standard of Living and Wages," *American Economic Review* vol. XIII, Supplement, 1923.

[2] "The cost of Living in Twelve Industrial Cities," National Industrial Conference Board.

cuse, N. Y.; and in the four small cities of Butler, Pa.; Leominster, Mass.; Lockport, N. Y.; and Marion, Ohio The cost of living data were based on the local prices of food, housing, fuel and light, clothing, and sundries.

It was estimated that the average minimum cost of maintaining a "fair American standard of living" for the family of an industrial worker, including the worker himself, his wife, and two children (not three children as was the case in former studies) ranged from $1,552 in Cleveland to $1,628 in New York for the large cities; from $1,504 in Dayton to $1,618 in Reading for the medium-sized cities; and from $1,442 in Marion to $1,567 in Lockport for the small cities. Thus, the differences in the cost of living in these large, medium-sized and small cities were not great. The average minimum costs of living were found to be about $1,500.

Studies of wages by the Industrial Conference Board and other agencies show a recent stability of wage rates and a recent increase of real wages in manufacturing industries. However, there is little evidence that the prewar problem of inadequate family wages has been eliminated by this growth of industrial productivity.

Although a period of falling prices frequently is accompanied by an increase in real wages, it presents a serious problem of economic readjustment, especially if the fall in the general price level is very rapid. The fall in the general price level in 1920 and 1921 was so precipitous that industry was temporarily paralyzed. Unemployment and violent wage cuts so reduced the purchasing power of the wage earners that the economic depression was further aggravated.

It may be that the next decade or two will be a period of falling prices, such as took place after the Civil War. If such is the case, the former problem of attempting to keep real wages constant will assume a different form. Past experience has shown that prices fall as unsteadily and irregularly as they rise. Moreover, falling prices are apt to be accompanied by economic depression and unemployment. Although the salaried groups may experience an increase in real wages, labor is apt to find difficulty in maintaining former standards of living. Increases in wages may be more than offset by a reduction of employment.

19. Concept of a Family Wage.—The presence of several million women and children in industry, as well as the large number of single men employed, raises the question as to what extent the assumption of a family of five, dependent on one wage earner, is correct for the measurement of the adequacy of wages. This may be a splendid social ideal, but it is at variance with the facts.

According to the 1920 Census there were 24,351,676 families in the United States out of a population of 105,710,620, of whom 41,614,248 were gainfully employed. Hence, the number of wage earners is almost twice the number of families. Thus, the assumption of two wage earners per family instead of one would be more closely in line with the facts.

Moreover, the average size of the American family is not five, but four and a half (4.4). The former assumption of three children per family is not borne out by the actual statistics. As there are about 35,000,000 children under sixteen years of age in the United States, the average number per family is just about half this assumption, that is, 1.4 instead of 3 children.

In spite of these statistical refinements, however, the fact remains that there are a number of individuals who are solely dependent on their own earnings for the support of their families. Moreover, the size of the family is generally greatest in those economic groups which suffer most from low wages. The result is the entrance of women and children into industry.

20. Effects of Inadequate Wages.—The social effects of low wages are poverty and subnormal standards of living. These in turn create other problems, such as those of women and children in industry. Unsanitary housing, insufficient food, clothing, and medical attention are concomitants of low wages which result in an increased death rate.

The infant mortality rate is a fairly good barometer of standards of living. In certain American cities it was found to vary inversely within certain limits with the size of the family income. It was found to be twice as great in the lowest income group as in the income group whose earnings were considerably higher. Hence, it has been suggested that the low wages of the heads of many families be termed a dying wage rather than a living wage. The following chart tells the story:

CHART 32.—INFANT MORTALITY ACCORDING TO FATHERS' EARNINGS

INFANT DEATH RATE PER 1000	FATHERS EARNINGS
168	Under $450
137	$450 to $549
118	$550 to $649
108	$650 to $849
84	$850 to $1049
64	$1050 to $1249
61	$1250 and over

Eight American Cities. *Chart drawn from data compiled from Chief of the Children's Bureau, Sixth Annual Report, p.* 11, 1918.

In 1917 and 1918 an investigation was made of the incomes of over 2,000 families which were under observation by the Bureau of Preventable Diseases of the Department of Health of New York City. Over 10,000 persons were represented, of whom over 3,000 were wage earners; in other words, families which averaged five in number with an average

of one and one-half wage earners per family. Twenty-one per cent of these families had a total annual income of $600 or less, 30 per cent of the families had a total annual income of from $600 to $900, and about 21 per cent of the families had a total annual income of from $900 to $1,200. Half the families had a total annual income of less than $900.

These families with subnormally low incomes averaged one case of illness to a family, as a result of which 9 per cent of them applied for the first time for charitable relief. Other devices resorted to were the entrance of the housewives into industry, the borrowing of money wherever possible, and the taking in of lodgers or boarders. Most important of all effects of inadequate wages, however, was the reduction of the expenditures for food. This stinting of food militated against the recovery of health in the case of the sick and caused a liability to illness in the case of those who were not sick. The use of meat, eggs, and butter was eliminated in many cases. In spite of the needs of babies and young children, the consumption of milk was greatly reduced and in some cases eliminated altogether.[1]

The inadequate wages of the heads of families cast their shadow over the lives of the children. Thus, a large portion of the children of preschool age and of school age have been found to be undernourished. Many suffer from serious but remedial physical defects. The money which is spent for food and medical care is often woefully inadequate. Hence, certain cities have maintained the free distribution of milk, soup, or other foods to undernourished school children. Again, the physical examination of school children has been supplemented by free medical and dental services in the case of those unable to pay. Although ignorance and indifference play an important part in ill health, the significance of poverty and inadequate wages cannot be escaped.

The economic effects of low wages are as important as the social effects. Low wages are not synonymous with low labor costs. Labor costs represent wages in proportion to productivity. The poorly paid worker may produce not only absolutely less but also comparatively less than the better paid worker. Wages are higher in America than in Europe, but labor costs are not correspondingly higher. What the employer desires is not low wages but low labor costs. Industrial inefficiency is a cause of low wages, but it is also an effect of low wages with correspondingly low standards of living.

Low wages cause discontent as well as reduced efficiency. Social unrest finds a fertile soil in the ranks of poorly paid and irregularly employed workers. If the present economic order offers him no guarantee of a decent standard of living in return for faithful and honest effort, no harm can come to him by any revolutionary changes. He becomes

[1] Harris, Dr. Louis I., Bureau of Preventable Diseases, Department of Public Health, New York City, December, 1917, January and February, 1918.

a ready listener to the glowing promises of socialism, radicalism, anarchism, syndicalism, and bolshevism. On the other hand, steadily employed and adequately paid workers, who are able to own their small homes and to keep the wolf from the door, form a conservative element within the community.

21. Summary.—The term "poverty" may be used in a comparative sense to refer to those groups in society with the smallest income. It may also be used to refer to those whose incomes are too small to permit the maintenance of health and working efficiency. The paupers, as contrasted with the poor, are those individuals who are the recipients of charity, either in institutions or in their own homes. The extent of poverty is difficult to determine, for there are no absolute standards by which deviations from a normal can be measured. The expression "the submerged tenth" is often used to illustrate the comparative nature of poverty, its chronic condition and its wide extent.

A standard of living may be defined as a measure of economic consumption, that is, as the amount of income which an individual or a family consumes. Economic goods may be classified into necessities, comforts, and luxuries. Standards of living, like poverty itself, are relative. They vary from age to age, from nation to nation, and from one social group to another. A standard of living is essentially those things to which we are accustomed.

Standards of living are conditioned by one's desires and by one's purchasing power. Family budgets represent an attempt to balance expenditures against income. The commonly accepted unit of measurement is a family of five. As we descend the economic scale from the higher income groups to the lower income groups, the amount spent on necessities decreases, but its relative share of the total expenditure increases. After food, clothing, and shelter have been budgeted for, little remains for incidentals.

Standards of living have been classified as the pauper-poverty standard, the minimum of subsistence level, the minimum of health and comfort standard, and the normal standard of health and decency. Various attempts have been made to draw up a minimum standard of living, expressed in terms of certain quantities and qualities of various commodities and services. Minimum standards of living are generally expressed in terms of their monetary costs in a given place and at a given time. Changes in the costs of living make necessary frequent changes in the monetary expression of a minimum standard of living.

Numerous studies of wages in relation to costs of living testify to the inadequacy of the family wages of a large portion of our laboring population. The result is poverty or subnormal standards of living, as well as the entrance of women and children into industry. Although the general trend of real wages is upward, the wages of many adult male

workers is still insufficient of itself to maintain a family in comfort and even in decency. This conclusion is verified by numerous studies of wages and costs of living in different places, at different times, under rising prices and under falling prices, and in periods of business prosperity as well as in times of depression.

Inadequate wages have serious social and economic effects. The insufficiency of the wages of many married men make it necessary that they be supplemented by the meager earnings of other members of the family, some of whom should be at home or in school, rather than in industry. Low wages mean low standards of living, and low standards of living are a menace to the health and comfort of the community, as well as to the poor families themselves. Poverty is accompanied by discomfort, sickness, and a high death rate. A definite inverse correlation has been established between infant mortality and the wages of fathers.

There are serious economic as well as social effects of low wages, for low wages mean small purchasing power and a relatively slight economic demand. Inadequate wages for many and large fortunes for a few result in the glaring economic contrast between dire poverty and conspicuous consumption. Although overproduction in a general unqualified sense is impossible, great economic inequality may result in underconsumption and overinvestment which may induce, accelerate, or accentuate the business cycle. Again, low standards of living are the cause as well as the result of industrial inefficiency. Finally, low wages are not synonymous with low labor costs.

In addition to low wages there are other causes of poverty which are resident in our economic organization. These may be illustrated by unemployment, industrial accidents, occupational diseases, superannuation, and other industrial maladjustments. The physical, as well as the social, environment may be conducive to conditions of poverty rather than to those of prosperity.

There are individual subjective causes of poverty, as well as objective environmental causes. Illustrations are individual shiftlessness, sickness, feeble-mindedness, or other causes. Some of these are localized chiefly within the social debtor groups, but others are diffused throughout society. Many subjective causes of poverty are merely individual expressions of general objective causes. They determine the incidence of poverty and the composition of the poor group rather than the existence of poverty as a social fact.

The problems of pauperism and the relief of the poor belong within the domain of sociology, but the economist must consider those objective causes of poverty which are resident within the economic environment. Poverty is now regarded as a social disease and not as a moral virtue. The former attitude toward poverty was that of mere almsgiving, but

the modern scientific aim is the elimination or the reduction of the chief causes of poverty.

Collateral Reading

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Questions for Discussion

1. Distinguish between poverty and pauperism.
2. Indicate the extent of each. Why is its determination difficult?
3. What do you understand by a standard of living?
4. Why is this a relative concept?
5. Why is it a social rather than an individual concept?
6. What are the chief conditioning elements of a standard of living?
7. What do you understand by a family budget?
8. State Engel's law and show its significance.
9. Outline various types of standards of living.
10. What do you understand by the minimum quantity standard of living?
11. What do you understand by a family wage? Is this a fair economic and social concept?
12. What evidence have you that the wages of a large portion of our adult male workers are insufficient to support a family?
13. Is the problem of inadequate wages one of production, one of distribution, or both? Justify your position.
14. Illustrate the economic effects of low wages.
15. Illustrate the social effects of inadequate wages.
16. Enumerate some of the economic causes of poverty in addition to that of inadequate wages.
17. What is the distinction between subjective and objective causes of poverty? Is it a valid one? Why or why not?
18. Enumerate some of the leading individual causes of poverty.
19. Contrast the old and the new attitude toward poverty.

Topics for Investigation

1. Philanthropy and poverty.
2. The aims and accomplishments of charity organization societies.
3. The concept of a family wage of Prof. P. H. Douglas.
4. Early studies of poverty by Booth, Rowntree, and Hunter.
5. Poverty and social insurance.
6. The method and conclusions of any one of the investigations of standards of living referred to in this chapter.
7. Prepare a budget of your own income and expenditure or that of your own family.

PART THREE

HUMAN CONSERVATION AND LABOR LEGISLATION

Chapter VIII. Women and Children in Industry, *Problems of Exploitation.*

Chapter IX. The Long Day and the Problem of Industrial Fatigue, *Increased Leisure and Improved Working Conditions.*

Chapter X. Industrial Hazards and Social Insurance, *Human Safety and Financial Compensation.*

Chapter XI. The Problem of Unemployment and Its Reduction, *Economic Security through the Rationalization of Industry.*

CHAPTER VIII

WOMEN AND CHILDREN IN INDUSTRY

PROBLEMS OF EXPLOITATION

1. Development of the Problem in England.—The Industrial Revolution in England was attended by many unfortunate social results, chief among which was the problem of child labor and women in industry. Children of eight years of age, and indeed younger, toiled in the early factories. One of the worst features was the apprenticeship of the children of pauper parents into what was virtually a juvenile white slavery. These children were abused and driven to their work which often lasted 12 hours a day. They were given food of the coarsest kind and housed in bleak uncomfortable barracks. In some cases the children went to work in two shifts, so that the beds of these little workers never became cold. Accidents were frequent, disease was common, and the excessive toil soon put an end to their unhappy lots.

A parliamentary investigating committee discovered equally bad conditions in the mines, where little children had been utilized to drag coal cars through the narrow underground passages. Women and men worked side by side, sometimes almost naked, in the damp unwholesome shafts of the mines. The mere recital of these facts in testimony made unnecessary any discussion about the desirability of reform in mining conditions.

The fear of the physical degeneracy of the working population finally overcame the prevailing *laissez-faire* or let alone philosophy. The first British factory legislation, known as the Health and Morals Act of 1802, put a 12-hour limit to the work of children in the cotton mills.

In spite of the opposition of the manufacturing group, a famous factory law was passed in 1833, the year following the Great Reform Bill of 1832. It provided that no children under nine years of age be employed, and those from nine to thirteen years of age might work only 8 hours a day. Young persons from thirteen to eighteen years of age might not work over 12 hours a day and none of these hours could be at night.

The British Half Time Act of 1844 put women workers in the same category as young persons and applied to them the same restrictions as to hours of work. A corps of inspectors was created and factory inspection became a reality. The next factory act was that of 1847, which limited the work of women to 10 hours a day. Since it was unprofitable to work the factories without women and children, the 10-hour day gradually became a reality for men, as well as for women and children.

A law had been passed in 1842 which regulated working conditions in the mines. It prohibited all underground work by females and by boys under thirteen years of age.

Subsequent legislation raised still further the standards of child labor in Great Britain. An act of 1920 proscribed child labor and instituted an 8-hour day for young persons.

2. Situation in America and Elsewhere.—The development of the factory system in America produced conditions similar to those of England. The beginning of the textile industries in New England was accompanied by the problem of women and children in industry, but on a smaller scale. Idleness had no part in Puritan traditions, and a century ago it was regarded as philanthropic to give work to women and children in the new factories. Alexander Hamilton and other early protectionists made use of this argument in their plea for the establishment of manufacturing in America.

The development of manufacturing in this country was accompanied by the employment of children under sixteen years of age for 12, 13, and even 14 hours a day. But the situation gradually improved because of remedial legislation in many of the states of the industrial East and Northeast. Nevertheless, this amelioration was sporadic, for the United States, unlike Great Britain, is a Federal government, and the matter of child labor legislation is within the province of the individual states. With the recent growth of an industrial South, the evils of child labor have appeared in this new manufacturing section. Again, much raw cotton is still picked by women and children, for these problems are agricultural as well as industrial.

The problem of child labor today is no longer an English nor an American problem. It has become a world problem. The United States, Germany, and, still more recently, Japan have become industrialized. Moreover, cotton factories and other manufacturing industries are now springing up in India, Egypt, and China, as well as in many of the smaller states of Europe. Very often there is neither legislation nor an enlightened public opinion to interfere with the exploitation of the human, as well as the natural, resources of these countries. Recent observers in the Orient report that child labor conditions there may be found to parallel those in England a century ago.

3. Nature and Extent of Child Labor.—Child labor may be defined as the work of children under conditions that interfere with the physical development, education, and opportunities for recreation which children require. It is the working of children at unfit ages, for unreasonable hours or under unhealthful conditions.

For many reasons it is extremely difficult to estimate the amount of child labor. The number of children reported legally at work varies greatly from the number of children actually at work. Hence, official

reports are apt to underestimate greatly the amount of child labor. The problem is also complicated by the existence of part time work and the varying age definitions of children in the statutes of different states.

Prior to 1870 there were no adequate statistics of the extent of child labor, but for that year it is recorded by the United States Census that about 700,000 children between ten and fifteen years of age were at work, of whom over 100,000 were employed in manufactures. In 1880 there were over 1,000,000 children between ten and fifteen years of age, or over 16 per cent of that age group in our total population who were reported as gainfully employed. In 1900 this number had risen to about 1,750,000 or 18 per cent of the total number of children in the United States between these ages. According to the Census of 1910, there were about 2,000,000 children between the ages of ten and fifteen years who were gainfully employed. Of this number about one-third were girls.

It would seem that for this period of forty years the absolute and even the relative amount of child labor has increased. After the first decade of the present century, however, the volume of child labor seemed to decrease because of the development of public sentiment and the passage of various state laws. The outbreak of the World War, however, caused a great industrial development, as well as a great increase in the costs of living. These factors, combined with the later absence of men for military service, caused a considerable increase in the amount of child labor in the United States.

The conclusion of the war in 1918 and the absorption of several million men into industry resulted again in a considerable decrease in the volume of child labor. It was probably accelerated by the economic depression of 1920. Nevertheless, the Census for 1920 showed about 1,000,000 children from ten to fifteen years of age at work in factories, canneries, agriculture, mining, and other industries of the United States. Working children still represented about 8.5 per cent of the total number of children between ten and fifteen years of age. Nearly 400,000 of these million working children were between the ages of ten and fourteen years. Moreover, the census figures for 1920 were very conservative, for at that time there was in existence a Federal Child Labor Law, which was later declared unconstitutional.

4. Occupations and Earnings of Children.—The character of child labor can be seen by a study of the occupations in which it plays a considerable part. It may be said that children enter almost any industry from which they are not excluded by law and in which their unskilled labor and limited physical strength can be exploited.

Their occupations may be divided into three groups, which, listed in order of numerical importance, are agriculture, manufacturing, and mercantile pursuits. The census figures for 1920 showed the following distribution of child labor: 61 per cent in agriculture, 17.5 per cent in

manufacturing and mechanical occupations, 6 per cent in trade or mercantile pursuits, and the remainder in miscellaneous occupations.

Children of the cities are found in great numbers in department stores and mills, where employment certificates are generally required. On the other hand, children do a considerable amount of labor of which there is no record. Some of this is legal, but much is illegal. Thus, industrial home work or the sweatshop claims many children who are unable to obtain employment certificates to work in factories. Again, the number of children in agriculture is far greater than the recorded number. Street trades, such as those of newsboys and bootblacks, are also hard to regulate or to eliminate. Part-time employment and the unrecorded, if not illegal, employment of children in numerous other occupations makes the problem of child labor of far greater magnitude than the census figures indicate.

All studies of child labor reveal the fact that the earnings of children have been pitifully small. Except for the war period most averages were from three to five dollars a week. This seems hardly sufficient to supplement the family income to any great extent, nor to warrant the loss of educational opportunity which is involved.

5. Causes of Child Labor.—The minute subdivision of labor which accompanied the introduction of machinery lessened the need for craftsmanship. Little strength or intelligence is required to feed and tend many machines in the modern factory. Hence, this labor can be performed by children. Moreover, such labor is generally plentiful and cheap.

An indifferent public opinion is a second factor. Although cheap goods take a fearful toll in the health and welfare of the workers, they can easily be sold. Organizations, such as consumers' leagues, have inaugurated a campaign of popular education to inform the public as to the social cost of certain commodities. It maintains an honor list or white list of firms whose working conditions are satisfactory and which, therefore, warrant public patronage.

A third factor in the problem of child labor is the necessity for self-support. Poverty is a cause which demands that the child's wages supplement the family income, even to a small degree.

In the fourth place may be mentioned an unsatisfactory school system. The child may be glad to leave school as soon as he is permitted by the conpulsory school law to do so. Discipline is necessary, but it may be found irksome. The subjects taught may be neither practical nor interesting. The modern school, however, is providing a curriculum sufficiently diversified to appeal to the needs and capabilities of various groups of children.

6. Effects of Child Labor.—The effects of child labor may be grouped in a threefold division: first, the effects on the child; second, the effects on society; and third, the effects on industry.

The physical effects of child labor are frequently most unfortunate. Childhood is the period of physical growth which requires an abundance of fresh air, freedom, and activity. The monotony of repeated operations of the same character is a poor substitute for the self-expression of play and the intellectual training of the school. Again, the moral atmosphere of the working child is often bad. At best, child labor is apt to stunt the physical, intellectual, and moral growth of the individual child.

In the second place must be mentioned the injurious effects of child labor on society. It tends to break up family life by removing the child from his normal and proper place in the home. The young wage earner may become independent of parental authority. At best, his opportunity to rise out of a blind alley job is limited, and he gradually becomes accustomed to low wages and low standards of living. It must be remembered that the present army of child workers are destined to become the fathers and mothers of the next generation.

In the last place must be considered the effects of child labor on industry. In the long run it is not always the cheapest from the economic as well as the social point of view. It lowers the efficiency of the worker, because a dollar earned before the age of fourteen years must be subtracted several fold from later earning capacity. Moreover, the labor of children is wasteful and dangerous. Their inefficiency is a frequent source of both human and economic loss. In conclusion, little can be said to justify the existence of child labor in any enlightened community.

7. Development of State Legislation.—The first attempt at anything like child-labor legislation in the United States was made by Massachusetts in 1836 when a law was passed providing for the instruction of children employed in factories. It is significant that the motive of this early child-labor legislation was educational rather than one of health or recreation. In 1842 the working day for children in the factories of that state was limited to 10 hours a day. This law applied to children under fourteen years of age in the cotton and woolen mills and to children under sixteen in other manufactures.

A number of states had child labor laws on their statute books by the time of the Civil War. For the most part, however, these laws were unenforced or unenforceable. There was generally no effective system of factory inspection and only known violations were punished.

After the Civil War the state of Massachusetts again took the lead in the matter of child-labor legislation with the passage of the laws of 1866 and 1867. Manufacturing industries were forbidden to employ children under ten years of age, and children from ten to fifteen years of age might not be employed for more than 60 hours a week, that is, for more than 10 hours a day. A fairly adequate system of factory inspection was provided, as well as penalties for violations of the law. A minimum of schooling was also required of all children.

The real impetus for the adequate legal protection of children at work in factories did not develop until the opening of the present century. In 1903 Illinois passed a pioneer child-labor law which marked the opening of new era in child-labor legislation. This law prohibited children under fourteen years of age from working in factories and insisted that they remain in school until that age. The example of Illinois was soon followed by other states, and child-labor legislation in the United States was raised to higher levels than ever before.

8. Present Standards of Child-labor Legislation.—Although each state at present has some sort of law on the subject of child-labor legislation, they vary greatly in the adequacy of their provisions and in the stringency of their enforcement. In most states the minimum age of employment has been raised to fourteen years, but there are numerous exceptions and loopholes in the laws of some states. A common exception is that made in the case of paupers or the children of paupers. Again, there are many laxities in the enforcement of existing laws in some states.

Over half the states now have 8-hour laws for working children or young persons whose ages are just above the legal limit. About one-quarter of the states have approximately 9-hour laws, and the remaining quarter of the states permit 10 hours or more per day for young persons. In some states of the new industrial South it is legal for children to work 11 and 12 hours a day, and even at night.

Only one-quarter of our states have laws for the regulation of the street trades of children. The laws of most states are also especially weak in their provisions concerning the employment of children in agriculture and domestic service. The enforcement of adequate child-labor standards is more difficult in agriculture, domestic service, and the street trades than in manufacturing and mercantile establishments.

Almost a score of states still have no educational requirement for children leaving school, and only a dozen states now insist on the completion of the elementary school before the issuance of working papers. The development of compulsory school laws, however, is making great inroads on child labor in many of our states.

The standardization of child-labor requirements is difficult, because this legislation is within the province of the individual states. A National Child Labor Committee however, was organized in 1904. It urged reform and suggested model laws for enactment by the various states. The creation of a Federal Child Labor Bureau was another great step forward. A happy omen for the future was the still more recent proposal of a Federal child labor amendment.

9. Essentials of Child-labor Legislation.—In spite of the absence of uniformity in the various states, it is generally agreed that there are certain fundamentals in all satisfactory child labor laws. Various welfare bodies have attempted to standardize these various requirements

and to draft model child-labor laws. These must be not only clear and distinct in language, but they must also provide an effective machinery for the enforcement of their various provisions. A salaried corps of inspectors should be created with power to prosecute violations of the law. While many employers seek to cooperate in enforcing the law, others have been guilty of evasion.

It is generally agreed that a model child-labor law should cover certain well-defined points. The maximum working day should be one of 8 hours. Night work should be prohibited and a closing hour fixed. The minimum age at which a child should be permitted to work should be fourteen years. No exception should be made in the case of the children of pauper parents. Children employed between the ages of fourteen and sixteen years should have duly signed working papers. The state laws on child labor should be correlated with those on compulsory education.

No children should be permitted to enter dangerous trades which should be carefully specified in the law. The working conditions of all young persons should be carefully regulated in the interests of their safety and health. No persons in their teens should be permitted to work more than 8 hours a day.

10. Federal Legislation against Child Labor.—It was found impossible to bring all the states up to uniformly high standards of child-labor legislation. Hence, various civic associations began to agitate for Federal legislation on the subject.

In 1916 there was passed a National Child Labor Act which was to become effective for the entire United States on Sept. 1, 1917. A year was given to employers to make the readjustments which were necessitated by the law. The new law taxed all goods in foreign and interstate commerce from mines or quarries employing children under sixteen, or from manufacturing establishments employing children under fourteen, or employing children under sixteen for more than 8 hours a day, or for more than 6 days a week, or in the evening hours.

This law did not accomplish the desired results because it applied merely to industries producing for foreign and interstate commerce. Moreover, the law had not been in operation for a year when it was declared unconstitutional by the Supreme Court[1] on June 3, 1918. Although four of the judges dissented, it was held by the court that the national child-labor law was an undue extension of the interstate commerce powers of Congress, and that the latter could not be used to prevent child labor within the individual states. The effect of this decision was a general lowering of child-labor standards throughout the country.

The indefatigable enemies of child labor did not abandon their fight for a national law but sought new legal grounds. It was planned to

[1] *Hammer vs. Dagenhart*, 247 U. S. 251.

formulate a new Federal child-labor law and to base it on the Federal taxing power. Thus, the revenue act of 1918, approved Feb. 24, 1919, provided for a profits tax on the products of child labor. A tax of 10 per cent was laid on the net profits of mines, mills, canneries, etc., employing children under fourteen years of age and in violation of the conditions laid down in the act. These conditions were similar to those of the previous Federal child-labor act.

The second Federal child-labor law was as ephemeral as the first. Judge James E. Boyd, of the Western District of North Carolina, whose decision against the first Federal child-labor law had been sustained by the Supreme Court of the United States, rendered a similar decision against the second Federal child-labor law. He similarly objected that such a law was an interference with the sovereign rights of the individual states, who were within their residual constitutional rights in regulating child labor within their boundaries as they saw fit. The legal correctness of this decision was attested by the fact that it was again upheld by the Supreme Court,[1] which declared in May, 1922, that the second Federal child-labor law was an undue extension of the Federal powers of taxation. These judicial decisions were received unfavorably by labor organizations and by enlightened public opinion.

11. Proposed Child-labor Amendment.—As there appeared to be insuperable constitutional obstacles to a Federal child-labor law, the only legal redress for the problem seemed to lie in the passage of a constitutional amendment. Public sentiment had crystallized to such an extent that it was not long before a child-labor amendment was drawn up and passed by both houses of Congress with the necessary two-thirds vote.

Arkansas was the first state to ratify the proposed twentieth amendment and several other states soon followed. It was hoped that eventually three-fourths of the states of the Union would give their consent, but strong opposition soon developed. A number of states finally rejected this Federal amendment. Thus, Massachusetts, the home of child-labor legislation, refused its ratification of the proposed twentieth amendment.

The proposed child-labor amendment is only an enabling measure, by virtue of which the Congress may, if it so desires, pass a child-labor law. Although the proposed amendment limits the authority of the individual states in this regard, it does not prevent them from passing laws on the subject of child labor. It is unlikely that any child-labor law which might be passed by Congress would be extreme in its provisions. Reformers merely hope to standardize child-labor legislation and to provide a legal *dead line* in the sense of a minimum standard for conditions of child labor throughout the country. Child-labor laws of many progressive states would probably continue to be in advance of these mini-

[1] *Bailey vs. Drexel*, 42 Supreme Court, 449, 259 U. S. 20.

mum requirements. The text of the first two sections of the amendment reads as follows:

> *Section* 1. The Congress shall have power to limit, regulate, and prohibit the labor of persons under eighteen years of age.
>
> *Section* 2. The power of several states is unimpaired by this article except that the operation of State laws shall be suspended to the extent necessary to give effect to legislation enacted by the Congress.

It does not follow from these provisions that a Federal child-labor law would extend to the outside age limit of eighteen years.

12. Women in Industry Compared with Child Labor.—The problem of women in industry is not new, because women have always been an important factor in economic production. The early development of the arts, such as the manufacturing of pottery and the weaving of textiles, was largely woman's share in primitive culture. The new feature is merely the employment of women outside the home and as operators of power machinery.

When the Industrial Revolution brought an end to manufacturing by hand under the former domestic system, women as well as children became workers under the new factory system. The economic causes of women's entrance into industry are often the same as those affecting children, and the social consequences are somewhat similar. For physiological reasons the efficiency of women in certain industries is not so high as that of men, although in other kinds of work women may surpass men. Again, women's health and vitality are more seriously impaired by the strain of industry than are those of men.

From the standpoint of society, the effect on family life of the employment of women may be unfortunate, especially in the case of mothers forced to leave small children. An important social function of the family is that of socialization or the preparation of children for their larger life in society. This cannot be accomplished in a family life disrupted by the absence of the mother or children from the home. Mature women cannot be denied their right to independence and self-support, however, for the women-in-industry movement is but a part of the larger field of political and economic equality into which they have entered. Nevertheless, it is necessary to protect women in the exercise of their new freedom. Therefore, laws have been passed to regulate the industries into which women may enter, so that their surroundings may be healthful and sanitary.

The wages of women, like those of children, have often been pitifully small, for until recently they have generally been unorganized and in an unfortunate bargaining position. Again, the police power of the state has been used to justify legislation in the behalf of women as well as children because of the unfortunate social consequences of their industrial exploita-

tion. Moreover, there also exists as great a discrepancy in the laws of the different states concerning the labor of women as on the labor of children. The courts have similarly declared unconstitutional many laws designed to protect them.

13. Occupations of Women.—The number of women gainfully employed has steadily increased since the Industrial Revolution. The ratio of employed women to the total number of women in the United States has also increased. Moreover, there has been a great change in the character of the occupations represented. The qualitative aspect of the problem is just as interesting as the quantitative.

The occupations of the women may be grouped under the five following great divisions: (1) domestic service, (2) agriculture, (3) industry, (4) commerce and business, (5) professional life.

Domestic service employs a large number of women, larger perhaps than statistics would seem to indicate. Moreover, it has been exempted from many laws dealing with women in industry. Although domestic service was one of the first occupations open to women, it has become relatively less important. The same is true of agriculture, in which American women have not engaged to the same extent as the peasants of Europe. Nevertheless, a large amount of fruit, berries, and cotton is still picked by female labor in the United States.

It is in the last three groups of occupations that the greatest change has come. With the advent of the Industrial Revolution, women, like children, went to work in the factories. This is the problem of women in industry in the strict meaning of the expression.

Of more recent years, however, the problem has broadened considerably. Women have invaded commerce, business, and the professions. They have been motivated by other reasons than economic pressure to increase the family income. The only profession formerly open to women was that of teaching. The great universities, however, have now begun to open their doors to those women who desire to study law, medicine, and the new profession of social service. Formerly, women were scarcely seen in the mercantile pursuits, but now they are found taking the places of men as clerks, stenographers, and saleswomen.

Since the age of marriage has steadily advanced, women have increasingly utilized their employment to provide themselves means of support until they enter upon the oldest and the noblest of professions, that of homemaking. There has also been a growing tendency among employed women to retain their positions after marriage. Many women desire economic independence secured through a professional or business career. In most cases, however, women are merely loaned to industry, for they eventually find a place as mothers in their own homes.

14. Increasing Number of Women in Industry.—The growing number of women in industry can be seen from the following figures from the

United States Census. It gives the approximate number of women gainfully employed and their ratio to the total number of females over ten years of age in the general population.

WOMEN GAINFULLY EMPLOYED[1]

	Number	Percentage
1880.....	2,647,000	15
1890.....	4,005,000	17
1900.....	5,319,000	19
1910.....	8,076,000	23
1920.....	8,550,000	21

[1] U. S. census.

It will be noted that the number of women gainfully employed and their percentage of the total female adult population increased steadily and rapidly in the generation from 1880 to 1910. In general, the rate of increase of women gainfully employed was greater than that of men gainfully employed. The average increase in the number of gainfully employed women for each of these three decades was almost 50 per cent.

It is evident that there was a steady increase in the number of women gainfully employed even before the World War. Although the absence of men for military service greatly accelerated the general movement, the influence of the war can be greatly exaggerated. Nevertheless, it has been conservatively estimated that during our participation in the World War another million women entered industry.

The census figures for 1920 show that there were at that time 8,500,000 women at work outside the home, which represented only a little over 20 per cent of the total number of females over ten years of age. It must be remembered, however, that this was the year of the great drop in prices and the closing of many industries. As the volume of unemployment at that time was great, the relative smallness of both the number and the proportion of women gainfully employed must be discounted accordingly.

In 1922, a more representative year, it was estimated that the total number of women in industry approximated 12,000,000 rather than 9,000,000. The number and ratio of women gainfully employed today, as well as during the war, must be considerably in excess of the 1920 census figures. Women now form over one-fifth of the total number of individuals gainfully employed in the United States. At least 1 woman out of 4 in our entire adult female population is gainfully employed.

The tendency of women to remain in industry after marriage may be seen from the following study completed by the United States Women's Bureau in 1924. It stresses the fact that "marriage does not necessarily

mean a release of women from bread-winning activities, but frequently greater economic responsibilities."

MARRIED WOMEN AT WORK[1]

Census year	Number of women employed	Percentage of total number of women	Percentage of women at work
1890	515,260	4.6	13.9
1900	769,477	5.6	15.4
1910	1,890,661	10.7	24.7
1920	1,920,281	9.0	23.0

[1] Compiled from census figures, Women's Bureau, U. S. Department of Labor, 1924.

The entrance of both women and children into industry raises the question as to what extent, if at all, they are displacing men. Although they come into economic competition with men, the displacement is local and temporary. Women wage earners possess an additional purchasing power and increase by their own labor the demand for other kinds of labor. Hence, the employment of women does not in the long run tend to lessen the number of jobs for men.

The entrance of women into industry, like the introduction of machinery, requires a general adjustment. It may be said that they have been employed in addition to men rather than instead of men. It must be remembered that women and children were producers under the domestic system, although they rarely received money wages. The Industrial Revolution merely changed the location, the character, and the marketability of their work. It did not make them economic producers, because they were such before. It merely made them gainfully employed workers outside the home.

Women constitute a fairly elastic labor reserve. They enter industry in periods of expansion, but withdraw or are forced out in periods of economic depression. It cannot be inferred, however, that this adjustment is a small and painless one. It frequently results in a cutting of the wages of men. Again, women will frequently work for less money than will men in the same jobs. Hence, many employers strive to substitute women employees for men, wherever that is possible.

15. Hours of Women in Industry.—The problem of hours and working conditions is even more important in the case of women and children than in the case of adult men. Woman's work is not so apt to be finished when she leaves the factory or office. Moreover, she is more susceptible of fatigue than is man. For these reasons, as well as because of the greater possibility of exploitation, the law has been more ready to limit the hours of women than those of adult male workers.

Excessive hours, overtime employment, and night work, however, are still very common among women workers. Moreover, they are frequently employed in open or secret defiance of existing statutes. Although the legal 8-hour day for women has been introduced into several states, the 9- and 10-hour day generally prevails. Social and biological reasons, however, make desirable the 8-hour day and the 6-day week for women in industry.

The United States Women in Industry Service in 1918 made a study of the working conditions of over 12,000 women workers in Indiana. The result showed that 30 per cent of these women had a working day of 10 hours or more. This was normal and did not include overtime. An industrial survey of almost 19,000 women workers in Virginia in 1919 showed that 46 per cent of those studied were working 10 hours or more per day.[1]

Some progress away from excessive hours of work and toward the 8-hour day has been made in the past few years. But the hours of work of employed women are still onerous in many states. The situation is particularly acute in the textile mills of the new industrial South where numerous women and children are now employed.

A still more recent survey of the Women's Bureau of the United States Department of Labor investigated the prevalence of the 8-hour day among women in industry in 9 of the 14 southern states.[2] The remaining 5 will be surveyed at a later date. The result was as follows:

> The outstanding fact has been that in practically all of the southern states into which we have gone, the percentage of women working 48 hours or less has been very low, in some of them so low that there is almost no percentage to be recorded. Roughly, the range in these 9 states[2] is from 1 per cent in Georgia to 21 per cent in Arkansas. Maryland is the one exception, due to the predominance of the garment workers in that state, who, with a strong union, have run the percentage up to 52 per cent. In the North, on the other hand, in the states we have surveyed there, the range is from 13 per cent in Indiana to 68 per cent in Rhode Island. The bulk of the women in the northern group really lies between 34 per cent and 68 per cent, with Indiana and Iowa, which have no laws regulating hours, and Oklahoma with a 9-hour law bringing the record down.[3]

16. Working Conditions of Women.—The general working conditions of women are as important as the number of hours they are employed. Conditions in this respect are also far from satisfactory. Although working conditions must necessarily vary in different industries and

[1] Monthly Labor Review, pp. 99 and 100, August, 1920.

[2] Mississippi, Alabama, Georgia, South Carolina, Virginia, Maryland, Kentucky, Tennessee, and Arkansas.

[3] ANDERSON, MARY, Director of Women's Bureau, United States Department of Labor, "Women Work Long Hours in Southern Mills," *American Labor Legislation Review*, p. 36, March, 1928.

places of occupation, there are surely certain common standards of decency and comfort. For illustration, seats, rest rooms, and sanitary toilet facilities should be provided for all women at work in industry.

The Women in Industry Service of the United States Department of Labor in 1918 drew up certain standards for women in industry which were subsequently endorsed by the United States War Labor Policies Board. It gave a well-formulated set of standards concerning the employment of women. The 8-hour day and the 48-hour week were specified and home work was proscribed. The cooperation of the workers and employers was sought for the maintenance of existing laws. Desirable working conditions were also insisted on and specific recommendations made.

17. Low Wages of Women.—It is a matter of common knowledge that the wages of women, as well as those of children, are often very small. It is also true that women have frequently received less money than men for the same work. The wages of many women have been insufficient to support even themselves and hopelessly inadequate to support a family. On the other hand, attempts have been made to justify their inadequacy on the grounds that they are sufficient for *pin money* or to help supplement the general family income.

Although the New York Factory Investigating Committee declared that a weekly wage of from $8.20 to $9 was necessary for women workers in 1915, it found that in this year one-half of all wage earners in confectionery, paper box and shirt manufactures, and mercantile establishments were getting less than $8 a week. Indeed, one-eighth of the workers investigated received less than $5 a week and one-third less than $7 a week. Although these industries employed chiefly women workers, these figures applied to all employees investigated, men and boys as well as women and girls. Of the women employed in stores, 54 per cent received less than $7.50, and 25 per cent received less than $5.50 per week. The women employed in confectionery establishments were paid most poorly.[1]

The minimum wage standard set for women and girls dependent on their own earnings has been variously estimated. Because of the increase in the general price level this minimum standard was raised by the Minimum Wage Boards of Massachusetts (1914) and Minnesota (1915) from $8 a week to $12 and then to $15.50. The peak was reached by the District of Columbia at the height of inflation in 1920 when a minimum wage rate of $16.50 a week was prescribed for women workers.

From the investigations made at the same time in other states where minimum wage laws for women were not in force, it can easily be seen that the wages actually paid to many women workers have been far below these estimates of a decent standard of living. Thus, an investigation

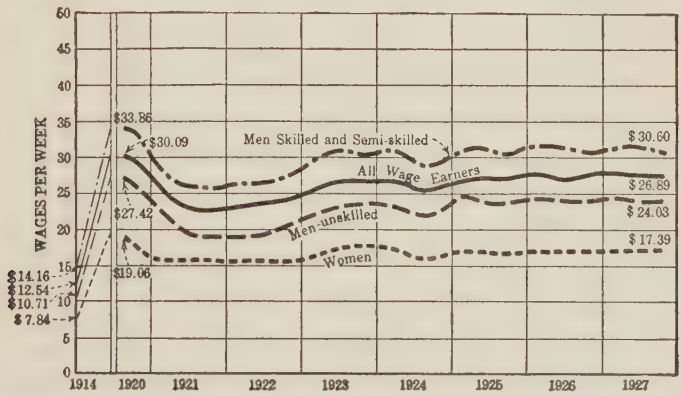
[1] New York Factory Investigating Committee, *Report*, vol. I, pp. 34–36, 1915.

revealed the fact that the median wage to women in Kansas in 1919 and 1920 was about $12. One-fifth of these women received less than $9 a week. Another investigation of women workers in Ohio in 1919 revealed that about 14 per cent of them were receiving less than $10 a week and over 50 per cent were receiving less than $15 a week.

One of the most recent studies of the wages of women in industry is that of the National Industrial Conference Board. It is based on an analysis of wages in twenty-five manufacturing industries. The findings of this organization disclose that the wages of women in industry, as measured either by average hourly wage rates or by average weekly earnings, have been continuously below those of all wage earners. Not only are the average wages of women in industry lower than average wages of skilled and semi-skilled men employed in industry, but also lower than the average wages of unskilled men.

CHART 33.—LOW WAGES OF WOMEN IN INDUSTRY

Average Actual Weekly Earnings of Men, Skilled and Unskilled; of All Wage Earners; of Men Unskilled; and of Women Workers in Manufacturing. (25 Industries.)



Reproduced by courtesy of National Industrial Conference Board, "Wages in the United States, 1914–1927," p. 32.

On the other hand, these findings of the National Industrial Conference Board indicate that there was a considerable increase in the average hourly wage rates and in the average weekly earnings of women workers from 1914 to 1920. It must be remembered, however, that the increase in costs of living within these years absorbed most of this increase in money wages.

According to the findings of the National Industrial Confe ence Board, the average actual weekly earnings of women in industry were $7.84 in 1914 and $19.06 in 1920. The average weekly earnings of these women in industry were fairly constant from 1921 to 1927. Never-

theless, there has been some recession, in their money earnings if not in the real earnings, for the average weekly earnings of women in industry were only $17.39 toward the close of 1927.

18. Reasons for the Low Wages of Women.—The low wages paid to women workers are the result of a number of causes, one of the chief of which has been their relatively weak bargaining power. It is only recently that women have developed effective labor organizations. Again, women are generally even more immobile than men. They cannot or will not go as readily from one employment into another. The labor of women has formerly been concentrated within a relatively few industries, in which they have been forced to meet the competition of a large number of women seeking part time or temporary employment. Furthermore, many women have not been entirely self-supporting and entirely dependent on their own earnings. The failure of this group to demand or to secure a living wage has forced down the general level of wages for all women workers.

The United States Commission on Industrial Relations put the matter somewhat as follows in its final report of 1916. The low wages paid to men have made it imperative that women enter industry in order to help support their families. The low wages of women are due in large part to the tendency of employers to substitute women for men, because they will accept lower wages and are less likely to protest against undesirable conditions of employment. Finally, the introduction of improved machinery, which makes exceptional skill and strength unnecessary, has been a very important factor in this substitution of women for men at relatively less wages.

19. Inequality of Wages of Men and Women.—There are two problems centering about the wages of women. The first is concerned with the low wages of women and their insufficiency to maintain decent standards of living. This problem is reflected in such legislation as minimum wage laws for women. The second problem is concerned with the wages of women in those occupations in which there is competition with men. It involves the question of equal pay for equal work.

Women did not enter industry on the same terms as men. The early exploitation of women assumed many forms, chief among which was a sex discrimination in wages in numerous occupations in which both men and women were employed. Studies of the wages of women in industry in England, even as late as the World War, disclosed a very apparent and widely prevalent tendency of employers to pay a lower wage to women than to men doing the same work. In some cases the piece rates for women workers were only one-half, or even one-third, of those paid to men in the same occupations. Again, when women took the places of the men who went to war the piece rates were generally lowered to a considerable degree in these effeminated industries.

During the World War the United States government adopted a policy of wage equality for men and women in most occupations in which both were employed. But in private employments the substitution of women for men at lower wage rates was very common. Many returned soldiers discovered that their employments had been thrown open to women who would work for less wages than the men were willing to accept.

Within recent years an increasing number of women in industry have begun to organize like men. Moreover, others have been entering mercantile pursuits and the professions on more nearly equal terms. Again, the acquisition of the franchise by women must mean that their political equality will be supplemented by an economic equality. The so-called "Woman's Movement" has begun to express itself in industrial democracy, as well as in political and social democracy.

"Equal pay for equal work" was finally given recognition by the American Federation of Labor, although certain trades in which the controversy had waged became exclusively women's trades and others exclusively men's trades. It is alleged that for the same grade of labor wages are still lower in the former group than in the latter. Recent salary schedules for teachers in most communities have been planned without sex discrimination. As time goes on it is likely that this matter will become purely an academic question. The United States Department of Labor through its Women in Industry Service has gone on record that "Wages should be established upon the basis of occupation and not on the basis of sex. The minimum wage rate should cover the cost of living of dependents and not merely for the individual."

20. "Equal Pay for Equal Work" Arguments.—There are various arguments, however, for the failure to pay equal wages to men and women in the same occupations. It is alleged that many women have merely themselves to support, and that some of them do not have even this responsibility. On the other hand, men are more apt to have dependents and greater financial responsibility, for they are generally the heads of families and the chief bread winners.

It is also argued, though with less force, that the financial needs of women are less than those of men, because of their ability to do such things as the preparation of their own food and the making of their own clothing. Back of this argument, however, is the traditional feeling that the rightful place of women is the home.

Another argument for wage inequality is that men are more efficient than women. The greater physical strength, and perhaps the exceptional skill of men, will prevent women from entering a number of trades and will perpetuate some wage differences which are based on sex. On the other hand, there are many occupations in which women are perhaps more efficient than men, because of their greater capacity for detail, routine, and careful painstaking work.

The relative efficiency of men and women should not be discussed as a general question but only for particular occupations. Women's industrial qualifications are different from rather than inferior to those of men. Moreover, many of them are based on differences in the social environment rather than on the physical difference of sex. As time goes on, many of the traditional rather than inherent differences will tend to decrease.

On the other hand, the fact of sex cannot be ignored. Time lost through illness and domestic causes is proportionately greater among women than men. Moreover, legal restrictions concerning the employment of women cause an added expense to the employer, which he is apt to deduct from the wages of his women employees.

21. The Sweatshop.—An important phase of the problem of women in industry is that of the sweatshop. Although sweated trades are frequently those in which women are employed, the problem is not exclusively such. Old men, young children, and the infirm are also represented here. Indeed, it may be said that the sweating system exists wherever there is an abundant supply of labor helplessly dependent on unscrupulous employers. It is an extreme form of economic exploitation which has existed in practically all our large cities, especially where there has been a plentiful supply of cheap immigrant labor.

Although dependent on conditions growing out of the Industrial Revolution, the sweatshop is hardly a part of the factory system. Indeed, one of its most characteristic features is that the work is not done in large supervised factories but in the homes of the sweaters or in the rooms of the workers. For this reason some students of the problem have regarded the sweatshop as a modern survival of the domestic system of manufacturing which antedated the Industrial Revolution and the factory system. The fact that it is industrial home work makes difficult supervision and regulation.

Although there have been many sweated industries, such as the manufacture of cigars and artificial flowers, the clothing industry is the best illustration. Before the development of organization among the garment workers, the sweatshop flourished in the Russian Jewish section of New York City. The essence of the system was the farming out to competing contractors of material cut for garments, which, in turn, was distributed among the individual workers to be sewn into finished garments. The cutting of the cloth was generally done under the direct supervision of the manufacturer, but these pieces were then delivered to the contractors who had agreed to make them up at so much per garment.

The contractor or sweater might furnish a room, the sweatshop, and have the work done there under his supervision, or he might distribute the garments among the workers to be finished in their own homes. In both cases there was a complete absence of collective bargaining, as the

sweater made individual wage agreements with his various workers. His profit lay in the margin of difference between the contract price and the wage cost of the garment.

22. Causes and Effects of the Sweatshop.—The causes of the sweatshop are those common to the employment of women and children. The work is simple in character, and the chief requirement of the labor is its cheapness. The existence of large groups of isolated or ignorant labor, such as the immigrants in a large city, creates such a situation.

The seasonal aspect of a given industry is partially responsible for the sweatshop, for large manufacturers hesitate to install capital which cannot be used continuously. Hence, the small shop or the sweatshop may be utilized to take care of a temporary excess demand.

The competition for industrial home work among certain unfortunate groups in society reduces the renumeration in sweated industries to a mere pittance. What is pin money to one woman may be subsistence to the widowed and the aged. The infirm, the crippled, and the whole group of partially employable may be utilized by the sweater in busy seasons.

Wages in sweated industries are not only low but also unequal for the same amount of work. Self-interest impels the sweater to drive the hardest possible bargain with every worker, and he is in a position to take advantage of their individual misfortunes or ignorance. During the Spanish-American War, for illustration, a large portion of standard army trousers was manufactured under this system. The result was that within the city of Philadelphia the piece wages paid to the workers in different shops varied from 35 to 75 cents a garment.

Other evils of the sweating system in addition to low and unequal wages are long hours of work and irregular employment. During the busy season, such as Easter, garment workers toil far into the night, in spite of the fact that they may have had scant employment in the previous weeks.

Finally, conditions of work under the sweating system are generally miserable. The wearers of fashionable tailored-to-measure clothing are happily ignorant of the surroundings in which their garments have been finished. Conditions of employment in many sweatshops are dangerous not only to the workers but also to consumers and to the general public. As sweatshops are located in the homes of the sweater or in the rooms of the workers, adequate factory inspection is impossible.

23. Regulation of the Sweatshop.—The very nature of the sweatshop makes difficult remedial legislation, but an attempt has been made to require licenses for all premises on which the sweating trades are conducted. This offers the possibility of inspection, for the police power of the state may invade the home of the citizens in the interest of public health and safety. Contractors may be held responsible for work done in licensed premises. However, a large corps of inspectors is necessary

to make such legislation effective. Moreover, such regulation can only improve general working conditions. It cannot eliminate the evils of low wages, unequal wages, and excessively long hours. The problem of inadequate wages has been attacked by other legislation for women, such as minimum wage laws.

The sweatshop has been more effectively attacked by organized labor than by state legislation. Low wages in sweatshops mean low wages in factories. Organized labor has been insistent in its efforts to eliminate rather than to ameliorate the sweatshop. Thus, the Amalgamated Clothing Workers and the International Ladies' Garment Workers have included prohibitions against industrial home work in their joint agreements.

24. Protective Legislation for Women.—Child labor legislation has been paralleled by the development of protective legislation for women workers. As women and children were employed on a considerable scale in the manufacture of textiles, these industries were among the first to be regulated by the states in which they flourished.

In the wave of humanitarianism which swept the country just before the Civil War the organized women workers of New Hampshire secured the 10-hour law of 1847 which has been regarded as the first of its kind in the country. Other New England and Middle Atlantic states followed, but the movement came to naught because these laws specified that the 10-hour day prevail in "the absence of an express contract requiring greater time." Employers took advantage of this loophole and made the signing of some blanket contract a prior condition of employment. It is important that all protective legislation be carefully worded, for the existence of any "joker" in the text of the law may nullify its purpose.

Effective legislation did not appear until a decade or two after the Civil War. Perhaps we may date the era of protective legislation for women workers from the passage of the Massachusetts law of 1874, which limited the number of hours of employment of women and minors to 10 daily and 60 weekly. As only "willful" violations could be punished, this law did not become effective until 1879, when it was amended in this respect. Similar laws were then passed by other states in the closing years of the nineteenth century.

It was contended that these laws interfered with the individual right of freedom of contract. An Illinois court, for illustration, held as unconstitutional a law of that state which provided an 8-hour day for women in factories. It held the law to be "a purely arbitrary restriction" on freedom of contract, which women as well as men were guaranteed by the constitution. Other state court decisions differed on the constitutionality of their laws for the protection of women and children. Thus,

a Nebraska court declared, "that women and children have always, to a certain extent, been wards of the state."[1]

In 1908 a crisis was passed when the United States Supreme Court[2] upheld the constitutionality of the Oregon 10-hour law for women workers in factories. Their health was regarded as vital to group welfare and the law was viewed as a legitimate exercise of the police power of the state. The effects of this legal victory were powerful and immediate.

A short time afterward the Superior Court of Illinois reversed its decision of a decade before and declared that a law of that state, which limited the number of hours that women might be employed in certain industries, was not class legislation and therefore not unconstitutional. In 1914 an 8-hour law for women was similarly sustained in the State of California. Apparently a national victory had been won concerning the constitutionality of legislation restricting the hours of employment of women.

In only half a dozen states today are there no legal restrictions as to the number of hours that a woman may be employed. In some states the 8-hour day is specified, in others the 9-hour day, and in still others the 10-hour day. In some states the maximum number of hours is expressed on a weekly basis and varies from 48 to 60 hours per week. In other states there is a combination of the daily and weekly basis. In all progressive states the standard has been very definitely raised to the 8-hour day for women workers.

In many instances a maximum number of hours is prescribed for only certain classes of industries within the state, as, for illustration, manufacturing or certain specified manufacturing industries. In most states an exception to the law is made in the case of women employed in agriculture or domestic service. The effects of excessive hours of work here are apparently regarded as not so dangerous. On the other hand, the laws of a number of states absolutely forbid the employment of women in dangerous and unhealthy occupations, such as mining.

In many states the employment of women at night is either forbidden or restricted. Some states have passed laws against the employment of women for several weeks before and after childbirth. The elimination or at least the reduction of overtime on the part of women workers has sometimes been accomplished by insistence on higher rates of pay for overtime hours of work. In order to eliminate the sweatshop in certain industries a number of states have legislated against industrial home work, except for members of the immediate family who live on the premises.

25. Origin of Minimum Wage Legislation.—The minimum wage law represents still another attempt at the legal protection of women in

[1] *Wenham vs. State*, 65 Nebraska 394, 1902.

[2] *Muller vs. Oregon*, 208 U. S. 412.

industry. Its avowed purpose is to secure a living wage and to prevent employment at less than this specified minimum level. Although often applied to adult male workers in European lands, the scope of minimum wage laws in this country generally has been limited to women workers. But in all lands and industries it developed as a weapon of last resort against the sweatshop and the sweated industries.

Minimum wage laws may be either general in their application, or limited to particular groups of workers in particular occupations. They may either prescribe a flat rate of pay as a minimum, or proscribe the paying of wages less than sufficient to maintain a minimum standard of living. In the latter case there must be some provision in the law for the creation of a permanent administrative board to determine from time to time what constitutes a minimum standard of living and hence a minimum wage. The constantly changing price level, local differences in costs of living, and peculiar differences in wage schedules make this type of minimum wage law preferable to the specification of a particular minimum wage.

Like many other experiments in labor legislation, minimum wage laws originated in Australasia. The conciliation boards of New Zealand, established in 1894 for the compulsory arbitration of industrial disputes, were also authorized to prevent sweating by a grant of power to fix a minimum wage within the sweated industries.

Victoria, Australia, in 1896, passed the first independent minimum wage law as an attempt to regulate the sweated industries. Administrative power was vested in specifically created boards composed of a number of employees under the chairmanship of a non-partisan umpire acceptable to both sides. The experiment was regarded as so successful that it was extended in 1900 from the six specified sweated industries to nearly all the important industries of the province. Moreover, it was extended to men as well as to women workers. In the first decade of the twentieth century other Australian states enacted similar legislation.

In 1909 Great Britain enacted the Trade Boards Act for the regulation of certain specified trades which were regarded as sweated industries. The jurisdiction of these boards was gradually extended to include men as well as women, skilled as well as unskilled workers, and agricultural as well as industrial labor. Minimum wage legislation in some form has also spread to the continent of Europe, to Canada, and to the Argentine Republic.

26. Minimum Wage Laws in the United States.—Massachusetts was the first state in this country to pass a minimum wage law for women workers. This act of 1912 provided for the creation of an administrative board to determine what should constitute a minimum wage, but the prescribed minimum wage was not made mandatory. The law relied

for its enforcement on the weapons of publicity and public opinion. In this respect it has been remarkably effective.

The following year eight other states passed minimum wage laws for women, some of which were mandatory in character. Before the outbreak of the World War, the movement was well on its way in a number of our states. Congress finally passed a minimum wage law in 1918 for the District of Columbia.

These minimum wage laws, unlike those of Europe and Australasia, have been limited in their application to women. For a number of years the attitude of organized labor in America was frankly hostile to the extension of minimum wage legislation to adult male workers, even in the sweated industries.

In 1917 the Supreme Court of the United States by an even decision refused to set aside a decision of the Superior Court of Oregon in favor of its minimum wage law. Following this verdict of the Supreme Court of the United States, therefore, the Superior Courts of a number of states refused to declare unconstitutional the minimum wage laws of their respective states.

The legal status of minimum wage laws seemed fairly well established, when suddenly events took a very different turn. In April, 1923, the United States Supreme Court,[1] by a five to three verdict, declared unconstitutional the District of Columbia mandatory wage board law. It was held to be an unwarranted interference with the constitutional guarantee of freedom of contract. A storm of protest was aroused, some of which later crystallized into a movement for the amendment of the constitution to limit the power of the Supreme Court.

This important decision implied the invalidity of other mandatory minimum wage laws in various states throughout the Union. In 1924 the Wisconsin minimum wage law for women and children was similarly declared unconstitutional. Again, in 1927 the Supreme Court of the United States denied the validity of the minimum wage law of Arizona. Thus, legislative regulations concerning hours and working conditions of women have been viewed by the courts as a legitimate extension of the police power of the state, but not so with legislation seeking to compel the payment of a certain wage or a certain wage level.

27. Objections to Minimum Wage Laws.—The determination of a minimum wage at any given time and for any given group of workers is as difficult as the former problem of the determination of a minimum standard of living. Indeed, they are the same problen. An Australian court, for illustration, once defined a minimum wage as a sum sufficient to cover "the normal needs of the average employee regarded as a human being living in a civilized community."

[1] *Adkins vs. Children's Hospital*, 261 U. S. 525.

Any such definition, however, is no answer to the problem, for it is merely a restatement. It raises immediately such questions as, What are normal needs? and, Who is the average employee? Should this minimum wage be determined on the basis of a minimum standard of living for a single individual or for the basic family of five? Should the minimum wage be the same for a man as for a woman?

Any minimum wage which is formulated must result in certain injustices, as well as numerous difficult problems. Nevertheless, social injustices may be less with minimum wage laws than without them. Social welfare may be increased by the elimination of the employment of individuals at wages too small to permit health and working efficiency.

In addition to the difficulties of determining a minimum wage and the administrative problems of wage boards, there is also the familiar *laissez-faire* objection. It is contended that wage determination by arbitrary legislative or administrative bodies is impossible or undesirable. Wages are determined by the interaction of the forces of supply and demand for various kinds of labor. To increase the wages of one group by any given sum, it is contended, is merely to subtract from the wages of another group an equivalent amount.

On the other hand, many advocates of minimum wage legislation contend that wage boards merely seek to determine and enforce the competitive rate of wages for any group of labor. They seek to prevent the unscrupulous employer or sweater from taking advantage of a given situation and from cutting under this so-called "normal competitive wage" by virtue of his strategic bargaining position. Moreover, minimum wage laws also restrict the field of competition to employable workers by eliminating defectives and other unemployable workers whose competition for work scales down the wages of all workers in those industries. Perhaps that is a fairer statement than the bald objection that minimum wage laws interfere with the free play of the natural economic forces in wage determination.

Other objections to minimum wage laws have been advanced from the point of view of the employer, the employee, and society in general. It is contended that minimum wage laws put a premium on inefficiency, because the worker must be paid a given wage whether or not he earns it. Again, the effect of such legislation may be the driving out of industries from a given state into less progressive ones where there are no minimum wage laws.

From the point of view of the employee, it is contended that minimum wage laws tend to undermine the strength of organized labor. The laborers should look to the unions rather than to the state for an increase in wages. Moreover, skilled workers fear that the minimum wage may become the maximum wage, and that the less efficient workers may profit at the expense of the more efficient ones.

In the last place, it has been argued that society as a whole would suffer from minimum wage legislation because of an increase in the size of the pauper or dependent group. A large portion of the most wretchedly paid workers receive such low wages because they are mentally or physically subnormal. Thus, sweatshop workers include the aged, children, the crippled, and the ignorant. Is this group economically capable of producing sufficient wealth to justify for itself a "living wage?" To insist on a minimum wage would mean that no employer would hire members of this partially employable group. They would be thrown back upon society for support. Under the present system, however, they are capable of earning at least a small sum, by means of which they can partially support themselves or support themselves at a subnormal standard of living.

28. Experience with Minimum Wage Laws.—The answers to the above objections may best be found in the practical tests of experience. Minimum wage laws may be said to have passed the experimental stage in most countries in which they have been tried. We have seen how Australasia and Great Britain extended the scope of their minimum wage laws and minimum wage boards.

The following results of minimum wage laws have been pointed out by their defenders. In the first place, nearly all the evidence that has been collected thus far goes to show that such legislation has raised wages. This is very definitely true of the sweated trades. A report of the United States Bureau of Labor Statistics, July, 1915, on the effects of minimum wage legislation in Oregon, gave as its conclusion that the average weekly earnings of women in retail stores were over 8 per cent higher in spite of the existence of a business depression which had caused an 8 per cent decrease in sales. Moreover, there did not seem to be a general leveling down of wages above the prescribed minimum. Instead, there had frequently taken place a raising of the total wage schedule from the new minimum wage as a higher basic level.

The bad effect of minimum wage legislation on unemployment was also found to be largely imaginary. Although in many cases the subnormal workers were thrown out of employment, a system was evolved by means of which a certain number of crippled or disabled workers were licensed for employment at less than the fixed wage rates. This mitigated the increased demand on charity.

Assuming an increase in the dependent group, however, this price is not too much to pay for the elimination as a factor in wage determination of the ruinous competition of the submarginal worker. It has been alleged that his low wage has tended to fix wages for the whole group in many of the sweated trades. Minimum wage legislation forces a distinction between the unemployed and the unemployable.

Experience has shown that the removal of an industry from one state to another because of the passage of a minimum wage law has been generally more of a threat than a reality. The additional labor cost has not been so great as expected, because of the increased productivity of the workers. In the last place, organized labor in America has come to feel that it has little to fear and much to gain from minimum wage legislation. The earlier attitude of suspicion is changing to one of encouragement and support.

29. Summary.—One of the great maladjustments of the Industrial Revolution in England was the employment of young children in the factories and mines. The situation was gradually improved during the past century by the passage of social legislation. The early rise of manufacturing in America and other parts of the world was also attended by the development of the same problem.

Although there has been a decrease of child labor in the United States because of the passage of social legislation, there are now over a million children recorded as gainfully employed between the ages of ten and fifteen years. They have entered almost all those occupations requiring little strength or skill. Their meager earnings do not justify the loss of educational or recreational opportunity which is involved.

The United States is a constitutional and Federal government. The regulation of child labor falls within the residual powers of the individual states. Consequently, it has been found difficult to secure uniformly high standards of child-labor legislation throughout the country. The laws of some states are excellent but those of other states are woefully inadequate.

Two Federal laws have been passed for the regulation of child labor, both of which have been declared unconstitutional. A Federal amendment has been passed by a two-thirds majority of both houses of Congress, but it has not been ratified by three-fourths of the states. This amendment is merely an enabling measure giving to the Federal government power to regulate the employment of children under eighteen years of age.

The development of the factory system was accompanied by the entrance of women into industry in addition to their former occupations of agriculture and domestic service. Recent years have seen the entrance of women into business and the professions. The number of women gainfully employed doubled from 1880 to 1890 and from 1890 to 1910. In 1920 there were over 8,000,000 women gainfully employed, of whom almost 2,000,000 were married.

The various states of the Union have passed different pieces of legislation for the regulation of the hours and working conditions of employed women. Some states have also passed minimum wage laws, for investigation has shown that the wages of women in most occupations have been very inadequate, and in some cases far below the wages of men for the

same work. The mandatory minimum wage, however, has been declared unconstitutional.

The sweatshop represents a survival of the domestic system of manufacturing. Goods are made in the home rather than in the factory. Wages are low and unequal in the sweated industries, for individual rather than collective bargaining prevails. Organized labor has constantly opposed home work in its fight against the sweatshop. The state has made recourse to minimum wage laws as its weapon of last resort against the sweated industries.

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Questions for Discussions

1. What was the theory of *laissez-faire*, and how did it prevent the passage of child labor legislation?
2. Is child labor a local, a national, or an international problem?
3. Is it essentially an industrial problem? Why or why not?
4. Outline causes of child labor.
5. Outline effects.
6. What are some essential points in a model child-labor bill?
7. Does the proposed child-labor amendment prohibit the employment of children under eighteen years of age?
8. Show the increasing number of women in industry.
9. Show the increasing number of occupations represented.

10. What are some of the causes of the low wages paid to women?
11. What are some essentials of the sweating system?
12. How can the evils of sweating be overcome?
13. Show the arguments for and against minimum wage laws.
14. Discuss the constitutionality of minimum wage laws.
15. Show the similarities of the problems of child labor and of women in industry.

Topics for Investigation

1. Early English conditions of child labor and of women in industry.
2. Legislative reform in England during the first part of the nineteenth century.
3. Child labor today in the cotton mills of the Orient.
4. The American constitution and child-labor legislation.
5. Child labor and the industrial South.
6. The child-labor laws of your own state.
7. Effects of the World War upon the problem of women in industry.
8. "Equal pay for equal work."
9. Minimum wage legislation in Australasia.
10. Recent minimum wage legislation in Europe.

CHAPTER IX

THE LONG DAY AND THE PROBLEM OF INDUSTRIAL FATIGUE

INCREASED LEISURE AND IMPROVED WORKING CONDITIONS

1. Human Conservation.—Excessive hours of labor represent a form of industrial exploitation which is not confined only to women and children, but which also involves a large portion of our adult male workers. Human conservation requires a restriction of the hours of all laborers and an improvement of working conditions in all kinds of employment.

In Chap. VII was discussed the inadequacy of the wages of many adult male workers to maintain a decent standard of living for their families. It is also true that the hours of labor are often the longest and the conditions of work the most fatiguing among those labor groups which suffer the most from inadequate wages. Human conservation involves not only a living wage but also the reduction of the long working day and the improvement of general conditions of employment. The quantitative side of human conservation is that of fewer hours of work, and its qualitative side is that of a reduction of the strains, discomforts, and hazards of modern industry.

The invention of power machinery has made it possible to increase output and to decrease the hours of work. Modern technology has not only increased our national prosperity, but it has also offered the possibility of increased leisure. These gains of the Industrial Revolution, however, were not realized immediately by the workers in the form of higher standards of living and shorter hours of work. It was not until after the development of effective collective bargaining that labor organizations began to attack successfully the evils of subnormal standards of living and excessive hours of work.

The modern increase of power machinery, the introduction of new processes, and the spread of scientific management have increased still further our industrial productivity, so that more wealth than formerly can now be produced in a still shorter time. Although modern industry is characterized by new hazards, greater monotony, and increased strain, it also offers the possibility of higher wages and shorter hours. Hence, a study of industrial efficiency must be supplemented by a consideration of these various problems of human conservation. Industry exists for man and not man for industry.

Increased productivity must be accompanied by shorter hours of work, as well as by increased wages. Under the lure of piece work and

premium plans the worker may go beyond the limits of his physical capacity. Under the drive of pace setting and task wages he may be forced beyond the bounds of human endurance itself. If increased productivity and even higher wages are achieved at the cost of overstrain and superannuation, the scientific management of industry itself is a questionable expedient. If economic waste is reduced but the human scrap heap of industry is increased, industrial efficiency is purchased at the costly price of social welfare.

Although the problem of human conservation transcends industry, for it involves living as well as working conditions, the strain and danger of modern methods of production cannot be minimized. The prevalence of superannuation rather than human conservation is due in large part to the strenuous character of modern industry and to the persistence of excessive hours of work. Studies of factory workers in numerous large plants have testified to the youthfulness of the employees. In many cases the average age of industrial workers has been found to be only about thirty. Although grey hair seems to be common and valuable in the professions, youth is insisted on for the laborers in modern manufacturing and mercantile establishments.

Why are the years of industrial productivity so few, and why is the number of mature men in industry disproportionately small? Why are old men relatively fewer in American factories than in those of Europe? Moreover, how are they displaced and what happens to them after they have given so strenuously of the best years of their lives to industry? Such are some problems of human conservation.

2. Gradual Reduction in Hours of Work.—The movement for a shorter working day is even older than the factory system and collective bargaining. As long ago as 1791 the journeymen carpenters of Philadelphia adopted a resolution declaring that a day's work shall be deemed to commence at six o'clock in the morning and to end at six o'clock in the evening of each day. If this standard was the ideal working day for organized workers at that time, it is a fair assumption that the actual hours of labor for the great masses of unorganized workers a century ago must have exceeded 12 hours a day.

By 1835 workers in the building trades in our eastern cities may be said to have secured the 10-hour day, but factory workers were not so well off. Before the Civil War a 12-hour day was common in the textile mills of New England. It must be remembered, however, that agricultural laborers, as well as industrial workers, suffered from excessive hours of work. The long day is an ancient problem, confined not to a few occupations nor to a small group of workers.

Extremely long hours of work were a part of the traditions of the past. They were due to the former absence of modern scientific methods of production rather than to a deliberate attempt at exploitation. It

is easy to condemn past practices without an objective consideration of the social and economic environment which produced them. On the other hand, it is equally difficult for the modern student to develop a new social philosophy which is a rationalization of and a mental adaptation to our changed economic environment. Long hours of work are less excusable today than they were a century ago because of the enormous increase of productive efficiency in industry.

In the absence of legislation on the subject the length of the working day for men in this country has varied from time to time, from place to place, and from industry to industry according to the strength of organized labor. The gradual decrease in the length of the working day has been accomplished by both collective bargaining and state legislation. The following table attempts to illustrate the gains made during the past century:

HOURS OF WORK IN MECHANICAL AND MANUFACTURING ESTABLISHMENTS[1]

Year	Average working day, hours	Year	Average working day, hours
1840	11.4	1890	10.0
1850	11.5	1900	9.8
1860	11.0	1910	9.25
1870	10.5	1920	9.00
1880	10.3		

[1] The averages for the decades of the nineteenth century are those in "Labor Problems" by Adams and Sumner, p. 518, and those for the twentieth century are those issued by the U. S. Bureau of Labor Statistics for similar industries.

3. Length of Modern Working Day.—Excessive hours of work, as well as inadequate wages, are not matters of mere historical interest. Social welfare is still threatened by these forms of industrial exploitation. Hours of employment are often longest in those economic groups in which wages are the lowest. Our former study of wages must now be supplemented by a few facts as to hours of work. We are interested here primarily in the hours of work of adult male workers, for the last chapter included some discussion of the problem of excessive hours of work among women and children.

The 1909 Census of Manufactures showed, concerning the 6,500,000 workers covered in its survey, that 76 per cent were working between 54 and 60 hours a week, that is, on the 9- or 10-hour day. Only about 8 per cent had a 48-hour week, that is, were on the 8-hour day.

The Census for 1914 revealed that 12 per cent of the industrial employees were working about 48 hours per week, that is, on the 8-hour basis. This represents a gain of above 50 per cent during the past 5 years. Out of the total of 7,000,000 workers in industry investigated,

however, about 25 per cent were still employed between 60 and 72 hours a week, that is, for 10 or more hours a day.

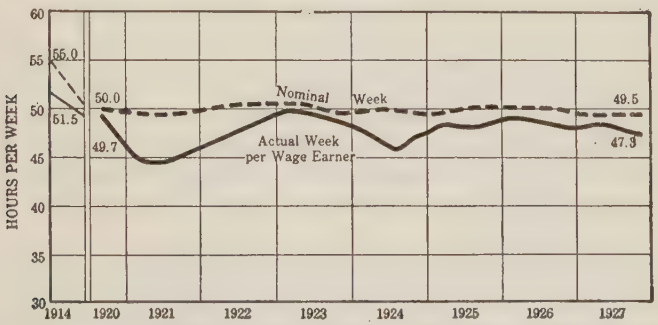
During the World War considerable progress was made toward the 8-hour day in the skilled trades and toward the 9- and 10-hour day in the unskilled occupations. Thus, the Census of Manufactures for 1919 showed that of its 9,000,000 workers employed in manufacturing, almost half were employed in establishments where the hours of labor were 48 hours per week, that is, where the 8-hour day prevailed. This compares very favorably with the 8 per cent in 1909 and the 12 per cent in 1914. The figures for 1919 also showed that in the manufacturing industries surveyed, only 35 per cent of the employees were working 54 hours or more per week, that is, for 9 or more hours a day, and only 12 per cent for 60 or more hours a week, that is, for 10 or more hours a day.

During the business depression which took place 2 years after the conclusion of the World War, many of labor's gains in the form of shorter hours of work were lost. Many employers in this country lapsed back from the 8-hour day to the 9- or 10-hour day, and from the 10-hour day to still longer hours of employment in the unskilled and unorganized occupations.

One of the best recent studies of the length of the working day in manufacturing is that of the National Industrial Conference Board. It covers the period from 1920 to 1927 and affords an interesting contrast with the situation in 1914. According to its findings the average nominal working week in 1914 was one of 55 hours. By 1920, however, this had been reduced to one of 50 hours. From 1920 to 1927 there was little change in this average, nominal week of 50 hours. In the last quarter of 1927 the average nominal week was 49.5 hours.

CHART 34.—CHANGES IN THE AVERAGE NOMINAL AND ACTUAL WEEK PER WAGE EARNER IN MANUFACTURING

(25 Industries)



Reproduced by courtesy of the National Industrial Conference Board from "Wages in the United States 1914–1927," p. 38.

The National Industrial Conference Board also sought to discover the average number of hours per week actually worked, as well as the

average nominal working week. According to its findings there was a decrease in the average working week from 51.5 hours in 1914 to 49.7 hours in 1920. This average was lowered in 1921 because of the existence of part-time work during the depression of that year. By 1923, however, the average actual working week had been increased to almost 50 hours, from which point it declined again in 1923 and 1924, to rise again in 1924 and 1925. In the last quarter of 1927 the average working week in industry was 47.3 hours.

These findings of the National Industrial Conference Board of the average nominal week and the average actual week of workers in manufacturing are based on a study of 25 industries which have been taken as typical. The findings of any research organization, no matter how careful and unbiased its work may be, must be discounted for the reason that it enjoys the cooperation of only the better industrial organizations. Those industries in which conditions are the worst are not anxious to give publicity to their long hours, low wages, or poor working conditions.

In the second place, any average is misleading, whether that average be an average family, an average wage, or an average working day. Thus, the average, nominal, working week or the average, actual, working week in industry, as disclosed by the National Industrial Conference Board, is made up of three very dissimilar elements, the working week of skilled male workers, the working week of unskilled male workers, and the working week of women. Collective bargaining has tended to keep the working day of skilled male workers down to 48 or 44 hours a week. Legislation in many states has forced the working week of women down to about the same level. On the other hand, most groups of unskilled male workers have enjoyed the protection neither of labor organizations nor of state legislation. Consequently, their working week has frequently been one of 54, 60, or even more hours per week.

4. Hours of Labor in Continuous Industries.—One of the worst illustrations of excessive hours of work was formerly to be found in the steel industry, where the 12-hour shift and the 7-day week were in existence. The blast furnaces require continuous operation, and they have often been worked by two 12-hour shifts instead of three 8-hour shifts. Moreover, in making the change from the day to the night shift, or the reverse, some workers have been required to remain continuously on duty for the full 24 hours.

According to the United States Bureau of Labor Statistics, about 40 per cent of the employees in the iron and steel industry in 1910 were working 72 or more hours per week, that is, for 12 hours a day for 6 days in the week, and about 20 per cent were working 84 hours a week, that is, for 12 hours a day for all 7 days in the week. The steel industry has been notorious in the past for excessive hours of work, as well as for low

wages, dangerous and fatiguing working conditions, and for a studied opposition to the collective bargaining of organized labor.

Public sentiment finally became so strong that various steel companies agreed to abandon the 12-hour shift. In August, 1923, Mr. Gary, the former president of the United States Steel Corporation, publicly announced that the process of eliminating the 12-hour shift in the steel industry had begun. Although the improvement was not so rapid as the conditions demanded, it is hoped the 12-hour day, and the 24-hour shift and other notorious features of this industry will soon be eliminated.

Other continuous industries are sugar refineries, chemical factories, ice plants, coke ovens, paper and pulp mills, and public utilities. The chief reasons for their continuous operation are either the technical nature of the industry or the public necessity of continuous operation.

A continuous industry can be operated either by two shifts of 12 hours each or by three shifts of 8 hours each. Social welfare demands the latter rather than the former, although the transition from long hours of work to shorter hours is not always an easy one in many continuous industries.

It is not difficult to regulate the hours of men employed in the railroad yards, but it is not so easy to do so for railroad employees who are operating trains. Congress passed a law in 1907, however, which is still effective, and which limits the hours of men in train service to 16. Of course, such legislation for the continuous industries merely fixes an outside maximum beyond which it is illegal to go. Actual hours of work are far less. The law was most conservative in order to allow for peculiar conditions and for emergency situations in the railroad industry. It would seem that the average working day in the freight service is from 10 to 12 hours and in passenger service a much shorter day, sometimes as short as 6 hours per day on favorable runs. The railroad workers employed in the yards are generally on an 8-hour day. The Adamson Act of 1916 provided a basic 8-hour day for railroad employees, but this pertains to the computation of wages and not to the actual hours of work performed.

5. Conclusions of the Commission on Industrial Relations.—The United States Commission on Industrial Relations began an investigation, authorized by Act of Congress in 1912, and published its final report in 1916. Some of these conclusions, although a decade old, are still worth repeating.

1. The physical well being, mental development, and recreational needs of every class of population demands that under normal circumstances the working day should not exceed 8 hours.

2. A large percentage of the workmen in manufactures, transportation, and mining work more than 8 hours a day. This is in marked contrast to the conditions of those whose economic position enables them to define the length of their own working day.

3. Practical experience has shown that the reduction of the working hours is in the interest not only of the worker and of the community generally, but of the employer.

4. The regulation by legal enactment of working hours of adult workmen is not generally practical nor desirable except for public employees.

It is suggested that the commission recommend

1. In the so-called continuous operations, other than the movement of trains, requiring work both day and night for 6 or 7 days per week, the state and the federal government should directly intervene, so that the working hours should not exceed 8 per day nor extent to more than 6 days per week.[1]

The *Report* of the United States Commission on Industrial Relations marked an epoch in the history of labor problems. Although it had some immediate and direct results, its chief influence was educational. The Commission made a careful investigation of industrial conditions and gave full publicity to its findings. Its chief contributions were its revelations of industrial exploitation and of causes of industrial unrest. One of the most important of these was the existence of excessive hours of work.

6. Hours or Labor in the New Industrial South.—A recent study of labor in southern mills seems to indicate that the textile factories in that newly industrialized area are threatening to take the place formerly held by the steel industry in the matter of long hours and low wages. The situation was described as follows in 1927:

While Henry Ford has inaugurated the 5-day week, many of the southern cotton mills retain the 11-hour day and the 12-hour night. They have the longest nominal working week of any considerable manufacturing industry in the United States. The 8-hour day is virtually unknown.

Legally, North Carolina and Georgia have the 60-hour week, South Carolina the 55-hour week and Alabama no limit. All the southern states allow night work for women. When they work 12 hours a night, they have Saturday night and Sunday night for a vacation.

These are cold statistical statements. What do they mean?

A man working 11 hours a day in a cotton mill rises at 5:30, bolts a hasty breakfast and hurries off to reach the mill before the last whistle at 6 o'clock. Probably he stands up all day at the machines, has 1 hour off for lunch, and leaves the factory at 6:00 p.m. His wife may work with him and go home to prepare the family supper after work.

The 12-hour night means in practice that a sixteen-year-old girl may stand at the machines from 6 p.m. to 6:15 a.m. with a 15-minute recess for lunch about midnight. I found one mill in Athens, Georgia, which gave no lunch period to its night workers, except to weavers. The other workers ate a midnight sandwich while standing at the machines.

Night work is particularly gruelling, and in most mills there is no extra pay for it. It is not always easy to fill the night force. When there is a shortage of work

[1] U. S. Commission on Industrial Relations, Final *Report*, vol. I, p. 69, 1916.

the employer may give jobs to day workers only on condition that some members of the family work at night.[1]

In addition to these excessive hours of work productive of extreme fatigue, extremely low wages were found to prevail among the textile workers in the southern cotton mills. A report of the National Industrial Conference Board conceded that the average hourly earnings in the southern cotton mills were lower than any other industry covered by their investigations. The figures of the Census of Manufactures for 1923 are even more conclusive, showing a yearly average of $641.97 or a weekly average of $12.35 for the cotton-mill workers of the leading industrial states of the South. The figures of the Bureau of Labor Statistics for 1926 are the latest. They have been paraphrased as follows:

> John South Carolina, gets $10.35 a week, while William North Carolina, who represents the best paid of the southern groups, receives $13.66. If we ask how the Carolinas succeed in making both ends meet, we find that they count upon three pay envelopes instead of one. Without the pay envelopes of the older children they could not live.[2]

7. New Strain in Industry.—Modern industry is characterized not only by excessive hours of work, but also by very fatiguing conditions of labor. The long day in industry is very old, but the intense strain of modern industry is relatively new.

Our present methods of production are very different from those which existed before the introduction of the factory system. Automatic devices have lessened the demand for the skill and craftsmanship which can be acquired only in time. Instead of strength and skill, machinery demands an alertness and a dexterous rapidity which youth alone can give.

Speed, noise, smoke, monotony, and other characteristics of modern methods of production are responsible for the strain of modern industry which makes for excessive fatigue and eventual superannuation. Again, power machinery has increased the dangers of modern industry even more than those of modern life. New methods of production are as hazardous as they are fatiguing.

The muscular exertion required of the worker today is probably less than ever before, because of the substitution of power machinery for human brawn. But the nervous strain of industry has been greatly increased, and fatigue is mental as well as physical. Some of the chief reasons for the fatiguing character of modern industry are its intense speed, its dull monotony, and its incessant noise. Constant attention, continuous alertness, and physiological adjustment to an automatic

[1] Blanchard, P., "Labor in Southern Cotton Mills." Quoted in *American Labor Legislation Review*, p. 48, March, 1928.

[2] Ibid.

rhythm are as tiring as great muscular exertion. The frequent menace of physical danger and the constant compulsion of the machine or the foreman increases this nervous tension.

The extensive use of power machinery has been accompanied by an intensive division of labor. This minute specialization of factory work often resolves itself into an endless repetition of the same act, as, for illustration, the operation of a punching machine or a drill press. A worker in an automobile factory, to give another illustration, may do nothing except the tightening of a particular nut on a certain bolt, as the automatic conveyer carries the parts of the automobile from one worker to another. One laborer in a packing house sticks pigs all day long, and another worker fastens labels on a seemingly infinite number of cans of lard which are automatically fed to him at a rapid and steady pace.

The adaptation of the human mind and body to the automatic rhythm of the machine involves a nervous adjustment which is fatiguing even under the best of conditions. Although thinking is not required, the constant attention and alertness which are always necessary, involve a certain mental strain. This nervous strain and physical fatigue are intensified as the rate of speed increases. By the use of machinery it is possible to speed the worker to his greatest possible exertion by forcing the human eyes and fingers to keep pace with those of electricity and steel. In canneries and biscuit factories, for illustration, automatic conveyers can be geared deliberately to that rate of speed which corresponds to that of the fastest laborers. Workers, new or old, who cannot maintain "the pace that kills" are forced to quit.

Even where machinery is not directly used, division of labor and cooperation accomplish the same effect of speeding up the workers. The system used in certain phases of the manufacture of steel is typical. Not only was the piece system of wage payment used, but recourse was made to pace setting by the employment of especially fast workers. Each worker was forced to keep up with the other workers in his gang. Otherwise, the flow of work would be impeded and the slow worker would be hurried or easily detected by the congestion about him. Moreover, the output and speed of each gang were constantly compared with those of other gangs, in order to discover in which parts of the organization output was falling behind.

Not only is modern industry characterized by a monotonous division of labor and by a rapid rate of speed but also by numerous other objectionable features, such as great noise, intense heat, a foul atmosphere, extreme dampness, etc. Some workers in the slaughter houses must wear boots to protect themselves against the pools of blood in which they are forced to stand continuously. In many machine shops and textile factories the crash of the machines and the thud of the looms are so loud that it is necessary to shout instructions at the top of one's voice in order to

be heard. The heat of blast furnaces, the grease and grime of machine shops, and the odor of a fertilizing plant are notorious.

Although most workers gradually become accustomed to even the worst of working conditions, nevertheless, laborers are still men and women and not automatons, creatures of flesh and blood and not of iron and steel. The speed and strain of modern industry, accompanied by many dangers and disagreeable features, are responsible for the physical fatigue and nervous exhaustion of the workers which finally results in a general superannuation or in some specific occupational disease.

8. Industrial Fatigue and the Accident Rate.—Fatigue is physiological and the result of a toxin in the blood which is produced by continuous physical or mental exertion. Rest and change are imperative, in order to permit nature to do the work of recuperation by rebuilding the worn-out cell tissue. The more strenuous the occupation the greater the need for a shorter working day and for increased leisure time for the toxin of fatigue to be removed. It would seem that the most strenuous and monotonous occupations, however, are those which are characterized by the longest hours of uninterrupted labor.

Even under the best of modern conditions fatigue sets in early. Charts have been drawn to illustrate the rapid rise of the fatigue curve. During the last few hours of continuous toil the fatigue point is the highest. Hence, this period of the day is productive of numerous industrial accidents. The following table gives a classification of industrial accidents according to the time of the day. As the forenoon progresses and the number of hours of continuous labor increases, the accident rate rises. There is naturally a falling off of industrial accidents during the lunch hour around noon, but the rate rises again in the afternoon hours to even higher levels than those of the forenoon.

INDUSTRIAL ACCIDENTS ACCORDING TO HOURS OF THE DAY[1]

7:00 to 7:59 a.m.	79	1:00 to 1:59 p.m.	111
8:00 to 8:59.	150	2:00 to 2:59.	156
9:00 to 9:59.	193	3:00 to 3:59.	227
10:00 to 10:59.	246	4:00 to 4:59.	260
11:00 to 11:59.	257	5:00 to 5:59.	145
12:00 to 12:59.	49	All other hours.	289

[1] This table is the result of a study made in Illinois in 1910. It is taken from "The Case for the Shorter Work Day" by Felix Frankfurter and Josephine Goldmark, published by the National Consumers' League.

9. Prevention of Excessive Fatigue.—The long day in industry, which is very old, and the new strain in industry, which is very recent, have combined to produce excessive fatigue. The amelioration of industrial fatigue may be accomplished both by a reduction in the number of hours of continuous employment and by an improvement in working conditions.

It would be logical to suppose that as the strain increased, from occupation to occupation, or from decade to decade, that the hours of work

would be correspondingly reduced. Unfortunately, such is not the case. Although our increased productivity has made possible a shorter working day, this result has been accomplished only by legislative enactment or the force of collective bargaining. Although individual employers have often sought to reduce industrial fatigue by improvements in the general working conditions, they have rarely favored a shorter working day.

Progressive employers have taken numerous precautionary measures to guard their workers against the extreme fatigue growing out of the strenuous, monotonous, and protracted conditions of their occupations. Periodic rest intervals are sometimes provided where the work is peculiarly tiring.

Some progressive firms have tried the experiment of serving light refreshments in the middle of the forenoon and afternoon. Others have utilized the brief recess periods for physical exercise in the case of sedentary workers and for complete relaxation in the case of physical laborers. In most large establishments, however, continuous operation is necessitated by the use of power machinery, by the nature of the industrial process, and by the complex and interdependent character of business organization.

Extreme specialization has been found to be very fatiguing. Occasional transfers or changes of occupation afford the workers a mental and physical variety, which may be reflected in such increased productivity as to make this expedient well worth while from an economic as well as from a humanitarian point of view.

10. Increased Comfort of the Worker.—The increased comfort of the employees while at work is the most important and practical method of reducing industrial fatigue. Scientific management may have made individuals work harder but it has also added to their comfort and convenience. Thus, modern management has sought to discover and to eliminate, wherever possible, many of the unpleasant features of industry. Scientific management has sought to remove such sources of discomfort and ill health as noise, dirt, grease, darkness, dampness, unpleasant odors, etc.

Progressive employers have utilized experts to study the physical layout of their factories, not only to improve the routing of the work and to provide the continuous flow of products but also to secure adequate ventilation, a healthful, even temperature, and the best possible lighting system. A conscious effort is being made by modern management to save the employees' eyes and lungs, as well as their backs. New mechanical devices, such as automatic conveyors and small motorized trucks, have been utilized to lighten the burden of labor as well as to speed it. Other devices, such as blowers and suction tubes, have been introduced to remove unpleasant odors, dangerous dust, and other objectionable features of the work.

It was formerly felt that alert employees should always be standing, whether or not this was necessary to the job. Modern department stores, however, have provided seats for their sales forces which consist largely of women. In slack moments while awaiting the next customer tired shop girls may sit down behind the counters and rest themselves. Motormen on trolley cars have also been provided with seats, as well as with protection against the inclement weather to which they were formerly exposed.

Pure drinking water, adequate wash rooms, and sanitary toilets should be provided by management for its employees. Locker rooms are also essential for those employees who find it necessary to change their street clothing for that worn during hours of employment. Rest rooms are also necessary, especially where many girls or women are employed.

Some firms, such as the Curtis Publishing Company, have established reading and recreation rooms within their own plants for the enjoyment of their employees during the noon hour. Lunch rooms which serve meals to their employees, either free or at cost, are also provided by some business houses.

11. Conservation of the Health of Employees.—It is imperative that first-aid facilities and the ordinary medical restoratives be available for the common emergency needs of sudden injury or sickness. If the establishment is a large one, a dispensary and a nurse should be provided. If the employment is a dangerous one, more complete hospital facilities and medical and surgical care are necessary, especially if the industry is located in a rural community or in a small town. If located in a large city and not far from a hospital, the industry may cooperate with the local health facilities rather than attempt to do more than merely to care for minor ailments or emergency needs.

The personnel departments of some business organizations have attempted to require a physical examination of all applicants for employment, and also of all employees at periodic intervals thereafter. This may be done in order to determine whether or not an individual is capable of enduring the physical and mental strain required by a certain job, and also to discover how well he is withstanding it after employment. Such physical examinations, like mental and educational tests, may be found helpful in the effort to place and to maintain workers in those occupations for which they are best fitted.

A few firms have attempted even to maintain medical and dental clinics for their employees, as well as to secure their periodic physical examination. A general health program has been regarded as essential to the promotion of industrial efficiency. Thus, the United Fruit Company, which has extensive establishments in Central America, maintains a hospital service for its employees. Such a policy is necessi-

tated by the unhealthy environmental conditions and by the complete absence of other hospital facilities in some of these regions. This situation is not typical of most industrial establishments of the United States which maintain dispensaries chiefly for emergency needs.

12. Legislation for Shorter Hours.—Shortly after the Civil War several states made attempts at legislation in favor of a shorter working day for men. These laws were either not enforced or not enforceable. Although the movement continued, laws for the reduction of the working day were successful only in public employments, quasi-public employments, such as the railroads, and in dangerous industries, such as mining, where long hours of work are not only peculiarly injurious to the individuals employed, but also constitute a serious menace to the safety of the community.

As early as Van Buren's administration a 10-hour navy-yard ordinance was passed. At present, more than half the states and many municipalities have an 8-hour day for their employees. The constitutionality of such laws was affirmed by a Supreme Court decision of 1903[1] which upheld the Kansas 8-hour day for all state and municipal employees.

A Congressional Act of 1912 provided an 8-hour clause for all contracts for governmental work and hence extended the 8-hour day beyond mere Federal employees. The Adamson Act of 1916, which provided a basic 8-hour day for railroad employees, was justified by the interstate commerce powers of Congress and sustained by the Supreme Court.[2]

In private employments, however, the general rule has been that the regulation of hours of work by the government is constitutional only when the public welfare is clearly involved. The burden of proof to show the community rather than the individual effects of excessive hours of work rests on those in favor of the legal restriction of hours of work. The courts have been very jealous of the personal and property rights included under the freedom of contract guaranteed by the Constitution.

Excessive hours of work in transportation and mining have been held to be so detrimental to the safety and welfare of the general public that the legal restriction of hours of work in these industries for adult male workers has been justified. Thus, in 1898, the United States Supreme Court upheld the constitutionality of a Utah statute which limited the hours of labor in smelters and underground mines to 8 hours a day.[3] Most important mining states now have 8-hour laws for these particular industries.

[1] *Adkins, vs. Kansas,* 191 U. S. 207.
[2] *Wilson vs. New,* 243 U. S. 332.
[3] *Holden vs. Hardy,* 169 U. S. 366.

On the other hand, attempts to legislate as to the hours of work in ordinary private industries have not been viewed as constitutional. Thus, the New York 10-hour law for bakers was held in 1905 to be an unconstitutional violation of freedom of contract and an undue extension of the police power of the state.[1]

Other court decisions have been conflicting. Thus, the Oregon 10-hour law for every "mill, factory, or manufacturing establishment" was sustained in 1917.[2] The state of Mississippi also has a general 10-hour law. On the other hand, a Federal 8-hour law for Alaska was held to be unconstitutional.

It may be that the future will see an extension of the police power of the state, which will not view as unconstitutional legislation designed to restrain the hours of work for adult male workers, as well as for women and children, for industries other than those of a very hazardous nature, and for employees in other than public or quasi-public industries.

13. Eight-hour Day.—It would seem that the 8-hour day has three distinct meanings: (1) a straight 8-hour day under which overtime is eliminated except for emergencies; (2) an 8-hour shift with three distinct groups of workers employed in continuous industries; and (3) a basic 8-hour day in which overtime is permitted and the 8-hour day is merely a basis for measuring wages.

Alleged attempts to shorten the working day have frequently been only devices to secure increased wages. Thus, we must distinguish between the 8-hour day and the basic 8-hour day. The latter provision does not prevent an employee from working for more than 8 hours, but it merely provides that hours of work in excess of 8 hours shall be construed as overtime and shall be paid for at higher rates of pay. The Adamson Act for railroad workers was of this character. It provided that "8 hours shall, in contracts for labor and service, be deemed a day's work and the measure or standard of a day's work for the purpose of reckoning the compensation for services of all employees."

It is apparent, however, that provisions which classify excessive hours of work as overtime tend to eliminate them. Overtime is paid for at a higher rate than is ordinary labor, usually at a 50 per cent increase. Hence, the employer will not use overtime employment except for emergency needs. In this way provisions which classify excessive hours of work as overtime, and which make overtime expensive, tend to reduce the actual length of the working day. The basic 8-hour day tends to standardize as well as to raise the general level of employment.

Studies of night work, Sunday labor, and other forms of overtime indicate that they are very questionable expedients which should be

[1] *Lochner vs. New York*, 198 U. S. 45.
[2] *Bunting vs. Oregon*, 243 U. S. 426.

used only in temporary emergencies. Chronic overtime may increase the workers' wages, but it is the equivalent of excessive hours.

Advocates of legislation for shorter hours of work would standardize still further the hours of labor in particular industries or in all industries. Many students favor a universal 8-hour day for all workers in industry. Conditions differ, however, in various industries and even among various tasks within the same industry. This is an argument which is often advanced against the universal 8-hour day or general statutes which attempt to define the length of the working day in a general group of occupations. However, public sentiment has moved steadily toward the 8-hour day as a practical and modern economic ideal. It is felt that

> Eight hours for work, eight hours for play,
> Eight hours for sleep make up the full day.

14. Progress toward the Eight-hour Day and the Five-day Week.— In Australasia and Europe progress toward the 8-hour day has been made by legislation as well as by collective bargaining. Within the United States progress toward the universal 8-hour day has been made chiefly by the collective bargaining of organized labor. The state has been willing to limit the hours of women and children, of workers in dangerous or extremely fatiguing occupations and of public employees. It has not been willing to legislate for a general 8-hour day for all workers.

The movement for the universal 8-hour day may be said to have originated in Victoria, Australia, about a half century ago. In New Zealand the 8-hour day was established by law in 1901. The wage boards of most Australian states are now empowered to fix the maximum number of working hours per week. The general standard there is now 48 hours weekly or the 8-hour day.

In Great Britain the Factory and Workshop Act of 1902 limited the maximum number of weekly hours in textile factories to 55½ hours a week. A Coal Mines Regulation Act was passed in 1909 which rigidly restricted the hours of work underground. The miners later secured a 7-hour day, after which they began agitating in favor of a 6-hour day. Their triumph was ephemeral, however, for the 8-hour day was soon again restored. In 1926 the operators of the British coal mines demanded a longer working day. Otherwise, they contended they could not operate the mines at a profit nor meet the competition of foreign coal. At the present time, the hours of work in the principal industries of Great Britain are from 44 to 48 hours a week. Although longer hours of work exist in some occupations, the 8-hour day has fairly well established itself in Great Britain.

Countries of continental Europe have also legislated as to the length of the working day in most industries. The 8-hour day has made considerable progress within the last decade or two. Although there has been a reaction in certain quarters, as for illustration in Italy under the

regime of Mussolini, the movement is well on its way in France, Germany, and Scandinavia.

The 8-hour day was stressed by the First International Congress in Washington in 1919. It has been one of the ideals of the International Labor Office in Geneva which has sought to standardize and to raise the general levels of employment throughout the world. It has felt that labor in any country is menaced by the low wages and long hours of labor in other countries.

The movement toward a universal 8-hour day has been fostered in the United States by organized labor rather than by state legislation. Shorter hours of work and especially the 8-hour day have been among the main objectives of the American Federation of Labor. Workers in some strenuous occupations have been agitating in favor of even a 6- or 7-hour day.

In addition to progress toward the shorter working day, especially the 8-hour day, there has been some development toward a shorter working week. Workers have been agitating not only for a 5½-day week, but even in favor of a 5-day week. In many highly organized industries, the half day on Saturday is already a year round institution. In many of the large mercantile establishments of our cities, Saturday as well as Sunday has become a holiday during the warm summer months. Henry Ford has recently come out in favor of the 5-day week. It would seem as if Saturday, as well as Sunday, may eventually become a holiday, and that the workers may secure not merely 1, but 1½, or even 2 days of rest in the working week.

15. Economic Aspects of the Shorter Working Day.—There is much diversity of opinion among the advocates and the opponents of a shorter working day as to its economic possibilities. It is easy to see why a large manufacturer of automobiles might advocate the 5-day week. If a week-end of 2 days was substituted for a Sunday holiday, it would be possible to enjoy more completely the pleasures of motoring about the country. Hence, the popular desire for automobiles would be increased. But few other producers have indicated that it was their feeling that our enormous increase in productivity must be paralleled by a similar increase in leisure time, if economic consumption is to keep pace with production.

It would seem that there is little doubt as to our ability to consume what we produce. Indeed, some students feel that the present menace lies in our inability to produce as much as is necessary for our rapidly rising ideals of consumption. An undue shortening of the working day and of the working week might result in such a decrease of production that our present standards of living might be jeopardized.

It is obvious that in the long run production and consumption must balance. It is also apparent that a great reduction in the hours of work

will be accompanied by some decrease in production in a given state of the arts. At any time a choice must be made between the alternatives of increased wealth and increased leisure.

A happy balance between increased leisure and increased wealth is difficult to secure. The situation is complicated by the fact that the choice is a social and not an individual one. An individual worker cannot balance his increased leisure against his increased income. His increase in leisure time may not cost him anything in the form of a decreased income. Those who benefit by shorter hours of work may not suffer direct or proportionate losses because of the decrease in production. Indeed, decreased hours have often been accompanied by higher and not by lower wages.

16. Shorter Hours and the "Lump of Labor."—Many workers desire a reduction in the working day, not only in order to secure increased leisure and higher wage rates, but also in order to guard against unemployment. Even today some labor leaders fear that excessive hours of work will lessen the lump of labor and force the workers in a particular industry or their fellows out of a job. On the other hand, if the day's work be reduced from 12 to 8 hours, such a reduction of the working day, it is incorrectly alleged, will create employment for 50 per cent more workers in the industry.

Such reasoning is fallacious, for it is based on erroneous assumptions. The lump of labor is merely a local and a short run phenomenon. In the long run, there is no fixed demand for labor, even of a given type. In its final analysis the demand for labor is conditioned by the productivity of labor. If the increased productivity of labor is accompanied by a similar increase of wages, labor receives an additional purchasing power, which constitutes an additional demand for its own products. Neither a shorter working day nor a limitation of output will protect the workers in the long run against unemployment.

17. Shorter Hours and the Productivity of Labor.—It is also true that a reduction in the hours of work may not be accompanied by a proportionate decrease in production. Increased efficiency on the part of the workers may more than offset the reduction of the working day. Opponents of shorter hours have often predicted dire results from this expedient, such as a great increase in labor costs and a serious decrease in productive capacity. It has been predicted that the shorter working day would cause so great an increase in the price of the product that a loss of both the foreign and domestic markets would result. Nevertheless, it has been repeatedly shown that a reasonable curtailment of the hours of labor has not resulted in a serious increase in labor costs. In some cases the shorter working day has been so great an economic stimulus that no loss in production was caused by a slight decrease of hours.

The British Health of Munitions Workers Committee, for illustration, found that a reduction of from 7 to 20 hours per week in no case resulted in more than an insignificant reduction in the total output, while on the average it produced a substantial increase in production. The Illinois Industrial Survey of the Hours and Health of Women Workers in 1918 discovered that the reduction of the weekly hours of work from 55 and 54 to 48 hours resulted not in a decrease in production but in an actual increase of output.

The Commonwealth Steel Company reported that the change from 12 to 8 hours a day in the open-hearth department, which incidentally was accompanied by a higher rate of wages per hour, resulted in a more economic, as well as a more humanitarian, production of steel. In spite of shorter hours and higher wages, labor costs were actually reduced. The effect of reducing hours from 12 to 8 in the paper industry was studied by the United States Tariff Board in 1911. It discovered that the labor cost per ton of manufacture instead of being increased by a 50 per cent cut in the work day was actually lowered from $4.35 to $3.73. The shorter working day so increased the efficiency of the workers that the price of the product was not advanced.

18. Social Advantages of the Shorter Working Day.—The social advantages of the shorter working day may be summed up under the general headings of health, safety, education, and morality.

The relationship between long hours of work and the problems of safety and health have been discussed. The physiological character of fatigue has been demonstrated. The modern attitude toward disease is not only that of reducing exposure to it but also that of building up resistance. Long hours of work are productive of fatigue toxin which lessens organic resistance to both general and occupational diseases. The health-in-industry movement has its quantitative side in the reduction of the working day and its qualitative side in the improvement of working conditions.

The role of excessive hours of work in the matter of industrial accidents has also been indicated. The table given a few pages back demonstrates that the number of industrial accidents per hour increases as the number of hours of continuous employment increases. Hence the safety as well as the health movement requires the reduction of excessive hours of labor and the improvement of working conditions.

The problem of industrial fatigue has its moral and educational aspects as well as those of health and safety. Bodily exhaustion is unfavorable to the exercise of self-control or the finer forms of self-expression. Excessive hours of work minimize the amount of leisure time, so that little opportunity is given for either formal education in the night schools or informal education in the various cultural institutions of society. The exhausted worker has little time or inclination for

public libraries, museums, and art galleries. He readily yields to the coarse pleasures and to the unsocial influences of debasing amusements and cheap thrills.

Idleness, intemperance, and other forms of dissipation were predicted by the foes of the shorter working day. Few of these evil effects have come to pass with a general reduction of the hours of labor. The increase of leisure time has not been abused by most workers, certainly no more so than by numerous wealthy individuals within the leisure class. Indeed, many students of the problem of fatigue in industry have felt that the dissipation of many workers resulted as a violent mental reaction to excessive hours of continuous and monotonous toil. Drunkenness and other forms of indulgence were sought because they brought temporary relief and immediate enjoyment to the jaded nerves of the tired workers. A decrease in the length of the working day and an increase in leisure time will probably result in more wholesome forms of recreation. Dissipation may be succeeded by education, as the leisure of the workers is increased.

In conclusion, little can be said to justify the existence of excessive hours of work in an enlightened modern community. Among the most conspicuous effects of such industrial exploitation are the loss of health, rest, and recreation, and the absence of the necessary leisure time for educational opportunities, social pleasures, and domestic duties. From a social as well as from an economic point of view, it is difficult to justify the fatiguing long day for certain groups of workers and the indolent indulgence of the leisure classes, and to reconcile the 10-, 11-, and 12-hour day in some occupations with the simultaneous existence of unemployment and underemployment in other occupations.

19. Summary.—Long hours of work, as well as inadequate wages, have been a frequent cause of industrial unrest. Often wages have been the lowest where hours of labor have been the longest. Social welfare demands not only wages sufficient to maintain decent standards of living, but also a working day which will permit a sufficient leisure time for health and recreation.

Although the 8-hour day prevails in many skilled trades, the 10-hour day is the rule in unskilled occupations. Hours of work are still longer in some industries. There is often no provision for 1 day of rest in 7. Excessive hours of labor on the part of some and unemployment on the part of other workers constitute a serious challenge to our economic system. Leisure and exploitation, like poverty and riches, are striking contrasts in our present social order.

Within the United States progress toward the 8-hour day for adult male workers has been accomplished by collective bargaining rather than by state legislation. In the case of women and children, workers in dangerous occupations, employees in public or quasi-public occupations,

legislation has restricted the length of the working day. But many groups of unorganized and unskilled laborers have profited neither by legislation nor by collective bargaining in the reduction of the hours of employment.

Human conservation involves not only the reduction of excessive hours of labor, but also the improvement of working conditions. Modern industry is characterized not only by increased productivity, but also by an excessive nervous and physical strain. Although most employers have not favored a reduction of the hours of labor, many of them have sought to lessen the burden of industrial fatigue by various improvements in working conditions. Many of them are designed to increase the comfort and to preserve the health of the employees. Management is seeking to reconcile industrial efficiency with human welfare.

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Questions for Discussion

1. What does human conservation involve?
2. Show how the length of the working day has gradually decreased.
3. What do you understand by a continuous industry and by the 24-hour shift? Illustrate.
4. What were some of the findings of the Commission on Industrial Relations as to hours of work and what were its recommendations?
5. What do you understand by the new strain in industry? Causes?
6. Do shorter hours of work necessarily mean higher labor costs? Why or why not?
7. What do you understand by the "lump of labor?" Show its relationship to shorter hours.
8. Indicate the limits of legislation in the United States toward a shorter working day.
9. What do you understand by the 8-hour day?
10. Indicate the social advantages of a shorter working day.
11. What are its economic possibilities?
12. Draw a chart to express graphically the table illustrating the increase of industrial accidents as the hours of continuous labor are protracted.
13. Chart the table illustrating the decrease in the daily working day from 1840 to 1920.

Topics for Investigation

1. Legislation toward a shorter day in Europe or in some country of Europe.
2. The industrial South and the working day.
3. The working day in the newly industrialized areas of the world.
4. Progress of the 8-hour day in the United States.
5. Nature and causes of fatigue.
6. Industrial fatigue and the accident rate.
7. The program of some progressive firm for the reduction of fatigue and the increased comforts of its employees while at work.
8. Health program of a progressive employer.
9. Mr. Ford's program of a 5-day week.

CHAPTER X

INDUSTRIAL HAZARDS AND SOCIAL INSURANCE

HUMAN SAFETY AND FINANCIAL COMPENSATION

1. Extent of Industrial Accidents.—Modern methods of production are not only strenuous but also dangerous. It was stated in the last chapter that the problem of human conservation involves not only the amelioration of industrial fatigue but also the reduction of industrial accidents. It was also demonstrated that there is a causal relationship between excessive hours of work and industrial accidents. It would seem that the common and related causes of many industrial accidents are the extreme fatigue of the workers and the excessive speed of the machinery.

The absence of complete and reliable statistics makes it impossible to state definitely the number and severity of industrial accidents within the United States. The jurisdiction of the Federal government extends merely over accidents in interstate commerce. In some states the statistics of industrial accidents are well kept but in other states they are incomplete and inaccurate. There is little uniformity throughout the country in methods of accounting and in the forms used for recording industrial accidents.

The future development of protective legislation for the workers must be accompanied by the compiling of more complete and accurate statistics. The common acceptance by all the states of standardized forms for the reporting of industrial accidents would be a great step forward. The American Association for Labor Legislation is at present seeking the universal adoption of such an improved and standardized form.

Several studies have been made of the extent of industrial accidents, as based on the data of some large insurance companies and on the statistics of certain progressive states. Thus, in 1908 Dr. F. L. Hoffman, statistician of the Prudential Life Insurance Company, estimated that the annual number of fatal injuries to workers was from thirty to thirty-five thousand and that the annual number of industrial accidents of varying degrees of severity was about two million. In 1913, he estimated that the number of fatal industrial accidents for that year was about twenty-five thousand and the total number of injuries involving more than 4 weeks of disability was about seven hundred thousand.[1]

The National Safety Council estimated that there occurred in 1919 about twenty-three thousand fatal accidents, about five hundred and

[1] U. S. Bureau of Labor Statistics, *Bulletin* 157.

seventy-five thousand non-fatal accidents involving 4 weeks or more of disability, and a grand total of about three million accidents of varying degrees of severity in all industries throughout the United States. In 1923 it was estimated by Mr. Hookstadt that the annual number of accidents involving permanent total disability were about seventeen hundred, those involving permanent partial disability were over one hundred thousand, and those involving temporary total disability were over two million. The annual number of fatalities in industry he estimated at over twenty-one thousand.[1]

There seems to have been no great reduction in the number of industrial accidents from 1913 to 1923. Although new safety devices have continually been installed, new hazards of industry have likewise constantly appeared in the continued march of technological progress and in the continuous process of invention and discovery. It would seem that the annual number of industrial fatalities is from twenty to thirty or thirty-five thousand, and that the total annual number of industrial accidents is several millions. These figures are exclusive of non-industrial accidents and of sickness and death due to occupational diseases. If either or both of these causes of illness, injury, or death were included, the estimate would be even greater.

In contrast to this high mortality rate for American industry, the International Labor Office reported that the number of fatal work accidents in 1923 was 2,082 in France and 3,302 in England. In Germany, in 1925, the corresponding number was 5,285. In other words, the combined annual industrial fatalities of France, England, and Germany were only between 10,000 and 11,000, or less than half those in the United States, in spite of the fact that the combined population or the total number gainfully employed in all these countries was greater than those of the United States.

Because of industrial accidents alone, a quarter billion working days are lost each year, representing a total annual cost of a round billion dollars. Such attempts to express in pecuniary terms the financial costs of industrial accidents are as common as the numerous attempts to capitalize the financial costs of the World War. But their overwhelming monetary totals seem to minimize rather than to magnify the human costs of these sacrifices of life and limb. By either the human or the financial measure, however, it may be demonstrated that the carnage and the cost of war can be equalled by those of industry in times of peace.

To employ a telling comparison frequently made, the industrial accidents of a single year in this country alone equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the *Titanic*. This single spectacular catastro-

[1] *Monthly Labor Review*, November, 1923.

phe appalled the civilized world and compelled governmental action in two hemispheres; while ceaseless day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.[1]

Such is the price in human life and well-being that modern, industrial America is paying for speed, carelessness, ignorance, and indifference.

2. Causes of Industrial Accidents.—An analysis of the general causes of industrial accidents reveals that they are divisible into several great groups, which may be termed the mechanical, the physiological, and the psychological causes of industrial accidents. A simpler division is that into the mechanical and the human causes of industrial accidents. It is obvious that many disasters represent a combination of both elements. The immediate and particular causes of industrial accidents vary with individuals, occupations, and particular instances.

Industrial accidents originate in the character of modern methods of production and in the failure of the human element. Modern technology makes use of new and powerful forces of nature, such as steam and electricity. Their increased powers of destruction, however, are as great as their increased powers of production. Moreover, modern industry is now carried on by complicated machinery rather than by simple tools. The average worker, who is not able to control the complete working of these machines, generally confines himself to one single operation. He is in danger, not only because of a possible failure of the machine or of himself but also because of the ignorance or carelessness of other similar specialists. The interdependence of modern economic society is well illustrated in the matter of industrial accidents. The mistake of a railroad switchman or the carelessness of a fellow miner, for illustration, may result in the killing or maiming of numerous other individuals.

Human nature itself is neither perfect nor automatic. Indeed, it is doubtful whether it is entirely fitted for the task placed upon it by modern mechanical industry. The worker cannot adjust himself perfectly to the routine of his task nor to the continuous and exact motions of the machine. Attention is bound to wander and fatigue to set in. That the human organism cannot respond quickly, accurately, and continuously is a great contributory cause of industrial accidents. Again, the consequences of a failure of the human element is far greater under modern conditions than before the development of our great mechanical inventions and the advent of the factory system.

3. Dangerous Occupations.—Industrial accidents can be classified according to occupations, some of which are far more hazardous than others. Among the most prolific of accidents are the railroads, the mines, building and construction work, and numerous types of manufacture.

[1] Downey, E. H., "History of Work Accident Indemnity in Iowa," pp. 1–5.

The Interstate Commerce Commission carefully compiles statistics concerning accidents on railroads, the hazardous character of which easily can be demonstrated. Thus, in 1907 there was 1 railroad employee killed for every 369 employed, and 1 worker was injured out of every 19 employed. This estimate, of course, is exclusive of passengers, trespassers, or other non-employees killed or injured on the railroads. A comparison of American statistics with those of Germany and England will show that our past record in the matter of railroad safety has been far from enviable.

Of recent years, however, great progress has been made in the matter of increased safety on the railroads. The use of better signal devices has lessened the chances of wrecks and the introduction of steel coaches has decreased the fatality of wrecks. One purpose of the full-crew law was to guard the safety of the passengers by requiring that sufficient trainmen accompany each train. A Federal law requiring the use of automatic couplers, instead of the former hand-adjusted coupling pins, has greatly lessened the number of accidents to laborers at work in the yards. As a result of various safety appliances and safety measures, the number of trainmen killed per thousand employed declined from 4.23 in 1917 to 1.79 in 1921 and to less than 1 per thousand in 1924. This splendid record demonstrates what can be done in the matter of increased safety on the railroads and in other industries.

Much still remains to be done, however, in the matter of railroad safety. In spite of the great hazards involved, individual pedestrians continue to trespass on the railroad tracks. The problem of grade crossings has been intensified by the greatly increased use of the automobile. A continued safety-first campaign is necessary among railroad employees, railroad passengers, motorists, and the general public. Railroads must be extremely careful in their selection of employees in order to eliminate from this hazardous and responsible occupation all incompetent and careless workers. On the other hand, wages must be high enough to secure good employees. Again, hours of work should not be so long and continuous as to produce excessive fatigue with a consequent lowering of energy and efficiency.

The mines, as well as the railroads, respresent a dangerous occupation, although mining hazards are confined chiefly to the workers in that occupation. But the regulation of the mines, unlike that of interstate commerce, falls within the jurisdiction of the individual states. Consequently, there is a wide divergence throughout the country in the matter of protective legislation for miners. Moreover, most statistics on mining accidents are compiled by state officials, although the Federal Bureau of Mines has sought to discover the statistics, the causes, and possible remedies for our numerous fatalities in mines. It is an important fact finding and educational body, although it has little authority.

It would seem that the mining industries of the United States have taken an average annual toll of more than 3,000 lives or at the rate of from 3.5 to 3.7 per thousand 300-day workmen. Coal mines take the first place in the matter of mining fatalities, for they have killed on an average each year 4.40 out of each thousand miners working on a 300-day basis. Every million tons of anthracite cost 5.51 lives and every million tons of bituminous coal cost 3.90 lives.[1]

In many of the coal-producing countries of Europe, the accident rate is far less than in our own country. Thus, in the United States for the 10 years from 1911 to 1921 the number of coal miners killed per thousand employed was three times as great as in Great Britain, although the American coal mines are generally more accessible than the British. In contrast to many European countries our fatality rate in mining is high as compared with the number of workers employed although not so high as compared with a given unit of output. These statistics reveal the fact that our country has achieved a rapid rate of production, but at a fearful human cost. Incidentally, our methods of mining have also been very wasteful of natural resources.

The reduction of mining fatalities requires adequate legislation and its strict enforcement. If left to individual initiative some mines will be operated in a fairly safe manner, but others will remain very dangerous. Again, it penalizes the humane operator in his competition with other operators. The installation of safety devices and the use of careful methods of mining may increase his costs of producing coal as compared with those of indifferent operators. The Federal character of our government prevents the passage of adequate national legislation, such as prevails in many European countries. Standards of safety in mining are fairly high in some American states but woefully inadequate in others.

Many precautions can be taken in the matter of mining. Thus, the use of safety lamps and approved types of explosives, the proper support of passageways, and other precautions will reduce mine fatalities. It has been discovered that explosions from *fire damp* can be prevented or reduced by using what is known as "rock dusting." In spite of the educational campaign of the American Association of Labor Legislation, only a few American states have made rock dusting in coal mines compulsory by legislation of this type. A number of states have established testing stations, however, for the study of safety in the mines.

The same lack of uniform legislation and the same absence of complete and reliable statistics is found in regard to manufacturing and building construction. State inspection of factories, buildings, elevators, boilers, etc., is satisfactory in some states but little more than a legal fiction in others.

[1] U. S. Bureau of Mines, *Bulletins* 246 and 248.

Some of the chief dangers in manufacturing industries lie in the presence of unguarded machinery and in the continued use of hasty and unsafe methods of production. Although antiquated machinery is quickly scrapped for something better, the same zeal has not been displayed in substituting cautious and safe methods of production for the more hazardous. But the passage of workmen's compensation laws in most states has secured a surprisingly rapid change of heart. Industrial accidents have become expensive and therefore uneconomic. Thus, in the steel industry in 1910 before the passage of workmen's compensation laws in most industrial states it was discovered that 245.2 out of every one thousand 300-day workers were injured, 1.86 fatally and 2.72 permanently.[1] Within the last decade, however, both the accident rate and the mortality rates have been very much reduced. Workmen's compensation laws have been accompanied by safety devices and by safety measures.

4. Preventive and Remedial Measures.—The prevention of industrial accidents requires the cooperation of the employer, the employee, and the state. In addition, there are numerous private organizations, such as insurance companies, which are directly interested in increased safety and improved health. The safety-first movement has crystallized in the formation of a national organization. Its white cross stands for the prevention of injury in the same way that the red cross stands for first aid to the injured and the suffering.

It is necessary that the employer utilize such safety appliances as are available and that he employ only such industrial methods as are most conducive to industrial safety and health. However, in so doing the employer often discovers that he has to combat the ignorance, carelessness, and indifference of the workers themselves. A campaign of education is necessary to overcome their fatalism or lack of interest in their own safety. Indeed, safety, as well as efficiency, is largely a matter of habit. The safe practice and the improved method will become natural only by continuous repetition.

The introduction of guards and other safety devices will not of themselves accomplish the desired result. The worker may ignore them and continue to work along the lines of least mental resistance. The illiteracy and lack of knowledge of English of many unskilled laborers make useless the posting of danger signs or precautionary measures printed in English. Pictures, however, are very effective, if every picture tells a story.

The tremendous toll of industrial accidents requires governmental action in addition to voluntary cooperation, for the profits motive, rather than the humanitarian ideal, determines the character of modern

[1] *Report* on Conditions of Employment in the Iron and Steel Industry by the Commissioner of Labor, vol. IV, p. 11, 1913.

industry. Although private associations of socially minded employers have advanced the ideals of health and safety in industry, coercion has been necessary for many. The passage of workmen's compensation laws, however, has made industrial accidents costly to employers. The result has been the introduction of safety devices and saner methods. Safety in industry now means lower financial, as well as human, costs of production. This is one argument in favor of social insurance, namely, that it tends to reduce the risks of industry as well as to compensate its victims.

In addition to the passage of workmen's compensation laws, the state has been forced to pass various other laws for the protection of workers against the hazards of modern industry. But an adequate system of factory and store inspection is necessary for enforcement of such legislation. Standards of safety vary greatly not only from industry to industry but also from state to state. The Federal character of our government and its constitutional limitations make difficult national legislation and uniform standards in these matters.

Provision should be made not only for the prevention of industrial accidents but also for the surgical and medical care of those who fall victims to them in spite of all possible precautions. For those workers who are permanently disabled, an educational program is necessary for their complete rehabilitation. The purpose of such training is to make these injured soldiers of industry capable of self-support and to prevent them from becoming public charges. In 1921, the Federal government passed the Smith-Hughes Act, which provided Federal subsidies for state boards of vocational education. A special function of these state boards is to provide for the vocational education, industrial training, and the general rehabilitation of the victims of industrial accidents, as well as of the wounded veterans of the World War.

5. Occupational Diseases.—The risks of the worker include not only a liability to sudden industrial accidents, but also to subtle occupational diseases. Dangerous trades include not only those occupations which are hazardous to life and limb but also those which slowly but surely undermine the health of the worker. Such trades sometimes result in specific occupational diseases but often in general ill health or an under-vitalized condition which makes their victims an easy prey to numerous ordinary diseases. The great number of such occupations is attested by a report of the Bureau of Labor Statistics in 1922 which listed no less than 700 dangerous trades.[1]

The importance of occupational diseases and the general ignorance of the consuming public concerning the human costs of producing numerous commodities of every day life are well brought out in the following word picture.

[1] Bureau of Labor Statistics, *Bulletin* 306.

In order that the consumer may rest peacefully on an artistic brass bedstead, some brassfounder may have had to suffer those malaria-like attacks of chills and sweats which are caused by the inhalation of zinc fumes. The pleasure of our morning ablutions is hardly increased by reading Dr. Hamilton's report that 36 per cent of the enamelers and mill hands in ten sanitary-ware factories were found to be suffering from chronic lead poisoning. Breakfast is not more palatable if we realize that 1 out of every 12 men, and 1 out of every 7 women, in white-ware potteries, in the manufacture of art and utility ware, and in tile works are "leaded" every year because of the lead glaze used. To appreciate the real cost of some of our clothing and house furnishings we should visit a cotton mill or a woolen mill, experience the soreness of the lungs that comes from staying a brief time in the sorting and carding rooms, and enter the humid and superheated atmosphere of the spinning and weaving rooms. We should then be less surprised that the factory people, who have stayed in this environment from their childhood up, have such a pale, washed-out appearance, and that they are particularly subject to tuberculosis.

The manufacture of felt and derby hats is not only a very dusty trade, as it is still conducted in most factories, giving rise to a higher death rate from tuberculosis even than among textile workers, but several branches of it involve danger of poisoning from cyanide of mercury with which the fur is treated to increase its felting properties. The manufacture of rubber footwear, rubber clothing, and dipped goods involves contact with several dangerous poisons: lead, anilin, naptha, carbon disulphide, carbon tetrachloride, and benzol. There are said to be forty-two different hazards in the tanning of leather to make shoes, gloves or anything else—a loathsome and often fatal germ disease called anthrax and many different chances of poisoning from chemicals.

The printing trade was one of the earliest products of modern invention, and has made wonderful progress with the introduction of the linotype and monotype in the last 30 years. The benefits which it has conferred on the human race are incalculable. It has been the chief lever for advancement in almost every direction. Yet it is an unhealthful occupation, because of the lead dust and vitiated air that have been characteristic of most printshops. Lead poisoning of a slow insidious variety lowers the vitality of the printer, and tuberculosis, in about half the cases, comes along to finish the job.[1]

6. Common Sources of Danger.—First among these dangerous trades are industries which deal with poisonous substances. The effects of these toxins may be relatively rapid or slow and of various degrees of severity. Lead poisoning, for illustration, is a common disease among workers employed in the manufacture of white lead, and in industries where it is commonly handled. The result may be paralysis, insanity, or death at an early age. Several European countries have reduced the mortality in these trades by forbidding such practices as dry rubbing and by insisting upon other precautionary measures. Various other dangerous poisons, such as arsenic, are sometimes used in the manufac-

[1] CATLIN, W. B., "The Labor Problem," pp. 105–107.

ture of dyes, paints, and colors. Workers with phosphorous, in the manufacture of matches, sometimes contract a deadly and characteristic disease known as "phossy jaw." This is one of the few dangerous trades against which our Federal government has legislated.

A second source of danger lies in exposure to an excessive amount of dust. The delicate membrane of the lungs becomes spotted with foreign particles and loses its power of resistance to tuberculosis and other respiratory diseases. Coal mining is a dangerous occupation for this reason, as well as because of its liability to accidents. Precautionary measures, such as screening the coal wet, will help to reduce the amount of dust in the air. An even more dangerous dust is that generated in metal grinding and where abrasives are used. Similar results may be produced in stone cutting and from the fine lint in the air of textile mills. Suction tubes and blowers should be used to draw the vitiated air away from the workers. Where dangerous gasses and poisonous fumes are produced, the work should be done under a hood which produces a forced draft. The management should install such devices and insist upon their use by the employees.

A third source of danger lies in sudden changes of temperature and air pressure. Steel workers and those employed near hot furnaces are easy victims of pneumonia during the winter months. Underground workers in mines and tunnels sometimes develop a peculiar and characteristic disease from changes in air pressure.

7. Preventive and Remedial Measures.—The reduction of occupational diseases, like the prevention of industrial accidents, calls for concerted action by employees, employers and the general public. A campaign of education is necessary to overcome ignorance and indifference.

Governmental legislation is similarly necessary, but uniformity is difficult because of the differences in state laws. A dangerous trade may merely be driven by law from one state to another. The American Association for Labor Legislation and other bodies have struggled to advance standards of safety and health throughout the United States. Legislative action should sometimes take the form of abolition and sometimes that of the regulation of dangerous practices.

Although the victims of occupational diseases were formerly often excluded from the benefits of workmen's compensation laws, there has been a growing tendency to regard them in the same legal light as the victims of industrial accidents. Victims of occupational diseases as well as of dangerous trades should not be thrown on the human scrap heap of industry nor be forced to resort to charity. The injured veterans of industry should be cared for by a surgical and educational program of rehabilitation. They should also be provided for by a comprehensive program of social insurance.

8. National Vitality and Physical Fitness.—The safety-first movement has been paralleled by the public-health movement. Although general social problems, their industrial phases are very important. There are numerous economic factors which affect our national vitality, as measured by the death rate, by the degree of physical fitness of our population, and by the amount of general sickness, as well as by the prevalence of industrial accidents and occupational diseases. On the other hand, the economic as well as the social effects of permanent injury, lingering illness, and premature death are also tremendous. The economic implications of human conservation, irrespective of its human and social gains, are even greater than those of the conservation of our natural resources.

The experience of the Industrial department of the Metropolitan Life Insurance Company indicated that the mortality rates of occupied males for all ages above fifteen was considerably higher than that found in the registered areas of the United States as a whole; that in the critical period from thirty-five to forty-four years of age the death rate for men insured in this department was over 50 per cent higher than that of the general population; and that between these ages the death rate of the industrial workers from tuberculosis alone was over 100 per cent higher than in the population as a whole.[1]

The much older study by Robert Hunter also testified to the existence of important economic factors in the death rates of different social classes. He estimated that the death rate even among the highest income group of the wage earners was 50 per cent greater than among the well-to-do classes of the population and that the death rate among the poorest class was probably not less than three and one half times as high as among the more fortunate.[2]

The physical fitness of our population as a whole is also far from satisfactory. It may be that modern industrialism and urban congestion are important factors in its explanation. But whatever its causes may be, and in spite of the fact that the situation may be no worse in this generation than in the days of our fathers, the examination of men for military service during the World War revealed some alarming facts as to the lack of physical fitness of young adult males. According to a report of the Provost General, only about 65 per cent of the men between the ages of twenty-one and thirty-one were found fully qualified for military service out of over three million men examined between December, 1917, and September, 1918. Within this limited time and for this group of men in the very prime of life, over a million were rejected for military service because of physical defects, many of which might have been removed by proper care and attention in the earlier years of life.

[1] Dublin, L. I., "Mortality Statistics of Insured Wage-earners and Their Families." pp. 23 and 52.

[2] Hunter, R., "Poverty," p. 144.

Later and more complete analyses of this great inventory of the physical fitness of the young men of our nation were far from reassuring. Conservative estimates are that at least 30 per cent of the total number of men examined under the Compulsory Service Act were classified as physically unfit. European experience was little better.

9. Economic Aspects of Sickness.—General sickness, as well as premature death and physical defects, is the cause of much human suffering and of tremendous economic waste. Moreover, sickness is not evenly diffused throughout our population but affects some groups far more than others. The financial incidence of sickness, like that of industrial accidents, often falls on those individuals and groups least able to bear it.

The rate of absence has been found to fluctuate among different industries, some of which are apparently less healthy than others. Thus, the United States Bureau of Labor Statistics reported some years ago that each workman in the steel industry had an average annual expectancy of 9 days lost by sickness and 4 days lost by accident.

The conclusions of the United States Commission on Industrial Relations in its final report of 1916 were that the average wage earner in the United States lost an average of 9 days each year because of sickness alone. In 1928 Dr. John A. Lapp reported that about 20 per cent of the workers suffered annually from a disabling sickness lasting more than 7 days. It must be noted that this average is very misleading, for the physical and financial incidence of our national sickness is very unequally diffused throughout the general population. The situation has been pictured as follows:

> The principal part of the whole burden of sickness in any one year is borne by this unfortunate minority. Among forty-two million people engaged in gainful employment about eight million four hundred thousand will have a disabling sickness lasting more than 7 days during the coming year. The other thirty-three or thirty-four million will escape practically entirely with the exception of minor disabilities. Of those that are sick 65 per cent will suffer disability for less than 30 days. The other 35 per cent numbering nearly three million will be disabled for more than 30 days. Three per cent of those who are sick, or about two hundred and fifty thousand will be sick for more than 6 months and fully one hundred and twenty thousand of them will be disabled for more than 1 year.[1]

It can easily be seen that the economic aspects of ordinary sickness, as well as of occupational diseases and industrial accidents, is tremendous. A recent report of the National Industrial Conference Board stated that American wage earners lost a quarter of a billion dollars in wages alone through absence from work due to illness.

[1] Lapp, J. A., "Advantage of Insurance in Disability, Illness, and Old Age," American Association for Labor Legislation, *Review*, p. 182, June, 1928.

Some years ago Prof. Irving Fisher estimated that the average number of persons who were sick in the United States was about three million, of whom nearly one-third were within the working period of life. He contended that this represented an annual loss in wages alone of a half billion dollars. If the costs of medical attention were included, the total annual cost of sickness would approximate a round billion dollars a year.[1]

A more recent estimate of our national sickness bill by Prof. Dublin is even greater. His study of a half million insured individuals indicated that about 2 per cent of our population is constantly sick, and that the average individual in the United States loses about 7 days each year from sickness involving an inability to work. This means a loss of 2 per cent of current production, which in round numbers amounts to more than a billion and a quarter dollars annually. The total cost of the necessary medical care amounts to more than a billion dollars a year additional.[2]

10. Conservation of Human Life and Health.—It is a well-known fact that the average span of life has been lengthened in spite of the increasing hazards of modern civilization and in spite of the dangers of modern methods of production. Thus, the death rate of western Europe and the United States today is only one-half that of medieval Europe, as revealed by the city records of Geneva for the opening decades of modern times. The death rate must have been even higher in earlier centuries or in less progressive communities than Geneva. Within the past century in the United States the death rate has fallen to a considerable extent. Even within the past decade it has fallen to an appreciable extent.

The death rate of a society is an excellent barometer of the degree of civilization to which a group has attained. Thus, the death rate of western Europe and the United States is about one-half that of certain registered areas of India and far below that of most Asiatic countries where human life is as cheap as it is miserable. Although the death rate of the United States is lower than many countries of Europe, it is not so low as that in the more progressive countries of Europe. It has already been indicated that there is a wide difference in the death rates of various economic groups within the United States. These widely divergent mortality rates testify to the great differences in the working conditions and the standards of living of various economic groups.

The gradual reduction in the death rate of our population as a whole has been accomplished chiefly by a lessening of infant mortality, the triumphs of modern surgery, and the conquest of contageous diseases

[1] Fisher, I., "National Vitality: Its Wastes and Conservation," pp. 741–742.

[2] Dublin, L. I., "Economics of World Health," *Harper's Magazine*, November, 1926.

by programs of sanitation rather than by an increased resistance to the organic diseases of middle life. Although much has already been accomplished, far more could be done by an aroused public opinion seeking to apply the findings of modern hygiene. Improved working and living conditions have not kept pace with the discoveries of the healing sciences. The fatal importance of subnormal standards of living and of dangerous working conditions has been indicated.

The responsibility for our enormous amount of sickness rests not only with industry but also with the individual and with the community. One of the most significant of modern developments is the public health movement which seeks to reduce the excessive amount of illness and to lengthen the span of human life. Like the safety-first movement, it should be fostered by the employer, the employee, the state, and the school.

Medical, surgical, and dental care should be provided for those individuals who are unable to pay for such professional attention. One of the greatest conservation problems of industry in particular and of society in general is that of human conservation, or the preservation of the national vitality and physical fitness. Inasmuch as sickness and poor health are important causes of industrial inefficiency, such an expenditure of public funds or corporate earnings might be a wise investment. Moreover, sickness is also a chief cause of dependency. A health program should be supplemented by some sort of sickness insurance for all workers, just as the safety-first movement has been supplemented by workmen's compensation laws.

11. Necessity of Social Insurance.—Early economists, as well as conscientious statesmen, held that workmen should provide for themselves against the various risks of industry. They stressed individual thrift and pointed to personal savings as the ultimate reserve in case of emergency. Moreover, the higher wages paid in dangerous trades, or in those in which employment was less regular, were regarded as a natural compensation for the greater risks incurred by the workers in these occupations.

It has been found, however, that many workmen are financially unable to make sufficient provision against the hazards of serious accident, protracted illness, long unemployment, or old age. Indeed, the risks of industry are often greatest among those groups which are the least able to bear them. The final result is often a resort to public or private charity for many families in cases of emergency.

Before the development of workmen's compensation laws and other forms of social insurance, the incidence of industrial accidents, occupational diseases, and other hazards of modern industry fell on the sick and injured workers themselves. In case of the death of the bread winner, the entire financial burden fell on his dependent family. The

fact that the laboring class is for the most part propertyless and that the workers have but a small reserve of savings on which they can fall makes this situation still more serious.

Those who need insurance the most frequently carry the least. It would seem that the low waged workers are peculiarly unable or reluctant to do so. Thus, it was discovered that more than half the workmen injured in the Pittsburgh district in 1907, before the advent of workmen's compensation, were earning less than $15 a week, or wages too small to permit the purchase of accident, sickness, or life insurance. Studies made of 132 married men killed in that city at about that time disclosed that only 6 had insurance in a substantial amount. Out of 214 men killed, only 25 left savings, insurance, trade union, and fraternal benefits combined to the amount of $500 each.[1] The necessity of workmen's compensation laws and other forms of social insurance is apparent.

Human conservation involves not only safety-first measures and improved working conditions for the protection of the health of the workers but also adequate provision for the victims of industrial accidents, occupational diseases, superannuation, and, indeed, ordinary sickness and old age. Such provisions include financial compensation, medical and surgical care in many cases, and educational rehabilitation in some cases.

12. Nature of Social Insurance.—The very nature of insurance, especially if provided by mutual companies, is social. The fundamental principle of any form of insurance is the removal of the financial incidence of some great loss from the individuals affected by it and its diffusion over the entire group which is menaced by this hazard. In other words, insurance substitutes a small, certain, and steady payment for a large and uncertain financial loss.

It is possible by relatively small but regular contributions from all employed workers to pay some benefits to individual workers or to their families in times of distress. Thus, some unions collect unemployment, sickness, and death dues from their members in order to pay these benefits to their affected members or their families when they are visited by these disasters. Numerous large corporations also have various contributory or non-contributory benefit programs for their workers.

The number of such private insurance programs is not very great. Again, the coverage is frequently inadequate. The great majority of workers remain unprotected against many of the most severe industrial hazards. Moreover, some of the private or fraternal programs of insurance are uncertain, for they are not on a sound actuarial basis. Although large and solvent insurance companies provide various types of industrial insurance, it has been indicated that most workers are unable or unwilling to purchase such policies.

[1] DOWNEY, E. H., "History of Work Accident Indemnity in Iowa."

Although insurance against numerous risks of industry is provided by private insurance companies, by individual employers, by labor unions, and by various fraternal organizations, social insurance represents the extension of the principle of insurance to almost all the workers affected by a particular industrial hazard. It implies not only the element of coercion but also that of government regulation.

Although social insurance may be provided by private insurance companies, it must be extended to all workers and not merely to those who choose to insure themselves or to those workers whose employers see fit to insure their employees. Again, it must be regulated and supervised by the state, if not actually administered by a governmental bureau. Although social insurance frequently implies state funds and governmental subsidies, such need not necessarily be the case. The final test of a program of social insurance is the existence of adequate, standardized, certain, and cheap benefits to all individuals affected.

Because of the inability or reluctance of the workers to insure themselves against the various risks of industry, the state has been forced to intervene. Governmental action has been justified, not only for humanitarian reasons but also because social insurance has been found to be more economic than charity. Legislation has provided that specific benefits shall be provided to workers under certain conditions. In some cases, the workers are compelled to bear a portion of the cost of such insurance by the payment of small premiums. In other cases, the payment of benefits is gratuitous.

The premiums of social insurance may come from the wages of the employees, from the profits of the employer, from the public treasury, or from a combination of two or more of these sources. If the worker makes some contribution, the project may more properly be termed "insurance." If it is provided freely by the state or by an individual employer, the project resembles a pension system rather than insurance.

The various types of social insurance are determined by the different kinds of industrial hazards. The most common types of social insurance are workmen's compensation for the victims of industrial accidents, health insurance for the sick, unemployment insurance for those out of work, and old-age pensions or insurance for the aged. Life insurance, annuities, and most other forms of insurance against many of the hazards of life are, however, essentially social in character.

Social insurance projects may also be classified according to the degree to which they are paid for by the workers themselves. At the one extreme are gratuitous pensions and at the other extreme contributory insurance. Social insurance plans may also be classified according to the extent that they are subsidized by the state. Social insurance may also be classified according to the type of administration. Thus,

there are private companies, state funds, and mutual associations of employers for the administration of workmen's compensation.

13. Employers' Liability Laws.—In both Great Britain and the United States before the advent of workmen's compensation laws the only redress open to the injured workman or his dependents was that under the common law or under existing statutes concerning the liability of employers. The burden of proof was on the victim of the industrial accident, who was forced to bring suit in court against his employer.

Litigation was uncertain, slow, and expensive. Lawyers known as "ambulance chasers" took promising cases, paid all legal expenses, and divided the damages with the injured worker on "a fifty-fifty" basis. If the law was against the injured worker, he was left to shift for himself. In any event it was difficult to establish a case under the former employers' liability laws. Moreover, there was little consistency in the awards of the different courts for substantially similar cases. Verdicts and damages varied with the sentiments and sentimentalities of different judges and juries.

Under the common law and the former employers' liability statutes the legal theory, as well as its administration, was decidedly against the victim of an industrial accident. The injured worker was forced to prove that his employer was solely and directly responsible for his injury. It was formerly held that the worker assumed the natural risks of the occupation when he accepted dangerous employment. If an accident was a natural hazard of the industry, there was no legal redress for the injured worker.

If the accident was the result, in whole or even in part, of the carelessness of the worker himself, his contributory negligence relieved the employer of any responsibility. If the fault was that of another worker, the "fellow servant" responsibility eliminated that of the employer. Foremen and even plant superintendents were frequently held by the courts to be "fellow servants."

Direct or even contributory negligence on the part of the employer was difficult for the injured workman to prove. Damages could not be awarded in any case unless the employee could demonstrate that the employer had not exercised due care in the management of the plant.

14. Principle of Compensation.—The principle of workmen's compensation laws is very different. The insured workman is not forced to appeal to the courts nor to bear the expense, the delay, and the uncertainty of litigation. Moreover, an attempt is made to standardize the awards according to some graduated scale which takes into consideration both the seriousness of the injury and the former earning power of the injured worker. The question as to responsibility for the accident does not enter. It is assumed that the employee will not deliberately injure himself in order to collect damages.

Compensation for the victims of industrial accidents is now regarded as a legitimate cost of production, which the employer can pass on to society in the form of higher prices. The insurance premiums which an employer is forced to pay reflect the hazards of the occupation. A reduction of his dangers of employment will be reflected in lower insurance rates. Hence, it has been found that the passage of workmen's compensation laws throughout the United States and elsewhere has given a tremendously effective incentive to the safety-first movement in industry. Industrial accidents have been made expensive, and the employer has been forced to accept this responsibility.

The consuming public, as well as the employer, is forced to accept the financial responsibility of industrial accidents and occupational diseases. The employer comes to regard his insurance premiums in the same light as other expenses of production which he seeks to pass on to the consumer in the form of increased prices. Thus, the passage of workmen's compensation laws has made the costs, and therefore the prices, of the products of dangerous trades higher than those of relatively safe occupations. Such a situation is as it should be. If property insurance premiums are regarded as legitimate expenses of production, why should not social insurance make the products of dangerous trades more expensive. The consumer of these products should be forced to pay for the human risks involved in their production, whether or not he knows of their existence. The higher prices of the products of dangerous trades will also tend to reduce their consumption, whenever this is possible, in favor of the products of safer occupations.

Social insurance in any form is merely the application of the basic principle of property insurance to the human risks of industry. Thus, workmen's compensation laws cannot compensate an individual for the loss of an arm or a leg, except merely in the sense that they may reimburse him for the loss of earning power which the industrial accident entails. The worker himself bears the human suffering and sorrow, but he is compensated financially by passing on to society the monetary losses represented by the industrial accident or the occupational disease.

15. Industrial Accident Insurance in Europe.—Social insurance first appeared in the form of compulsory compensation for the victims of industrial accidents and occupational diseases. Germany was the pioneer nation in the general field of social insurance. Over a decade before the close of the past century the Imperial German government had provided both industrial accident and sickness insurance for the majority of its workers. Social insurance was Bismarck's great weapon against poverty, on the one hand, and against socialism, on the other hand.

The German law of 1884 required employers to become members of mutual accident insurance associations which were to be under the supervision of the Imperial Insurance Office. These associations of

employers levied assessments on their members for this purpose. Compensation, according to a fixed schedule, was paid out of this common fund to the victims of industrial accidents or to their dependents in case of death. Hence, these associations of employers strove to reduce their industrial hazards. The payment of benefits, however, did not begin until the worker was absent 13 weeks from his work. During this period, he was paid out of the compulsory sickness insurance fund. The latter was composed of premiums paid by both employers and employees, and not merely by employers, as in the case of the industrial accident insurance fund. Hence, the initial burden on the employers was lightened. Provision was also made for the medical and surgical treatment of the victims of industrial accidents, as well as for financial compensation.

Industrial accident insurance was inaugurated in Norway 10 years later. Instead of providing for mutual associations of employers under the regulation of the government, as in Germany, Norway provided for a state insurance fund. Employers were required by the government to pay into this fund premiums in varying amounts, determined by the total wages of the employees and the degree of hazard of the industry. The state itself paid compensation out of this state fund according to a standardized schedule of rates to the victims of industrial accidents.

Great Britain developed a third system of administration in the Workmen's Compensation Act of 1897. The law prescribed a fixed schedule of benefits for the various types of injuries which resulted from industrial accidents. It required that the employer pay that scheduled amount to the injured worker or to his dependents. The employer might join an Employers' Liability Insurance Company and generally did so, but there was no compulsion in the matter. The danger of this voluntary system is that an employer may fail to insure himself against this risk and while uninsured may become bankrupt. In such a case the recipient of compensation becomes merely one of the creditors. On the other hand, this voluntary system of insurance has the alleged advantage of possessing a minimum of governmental interference with the employer.

Workmen's compensation laws may be administered by a mutual association of employers under governmental supervision, as in Germany; directly by the government through state funds, as in Norway; or by the individual employer under governmental supervision, as in Great Britain. It will be noted, however, that in spite of these differences in the method of administration in these three countries, there is a fixed scale of compensation, payment in accordance with which to the injured worker is made compulsory by law.

16. Workmen's Compensation Laws in the United States.—Workmen's compensation laws represent one form of social insurance which

is now common throughout the United States. Although almost universal today, it developed later here than in Europe. Uniformity is still lacking, however, because this legislation falls within the province of the individual states.

Early workmen's compensation laws were held to be unconstitutional. Although there had been earlier laws in both Maryland and Montana, the first important workmen's compensation law was passed in 1910 in New York. Like its predecessors, it was declared unconstitutional, for it was held by the courts to represent the taking of property without due process of law. But an amendment to the state constitution of New York was finally adopted and another compensation law passed in 1914.

Meanwhile, the state of Washington had passed in 1911 a workmen's compensation law similar to the Norwegian plan. Although contested in the courts, the legal verdict in the state of Washington was favorable and the law was held to be constitutional. The Supreme Court of the United States finally held that workmen's compensation laws passed by the individual states were not violations of the Fourteenth Amendment of the Federal constitution.

In the decade between 1910 and 1920 almost all the states of the Union passed workmen's compensation laws. At present (1928) only five states have no such legislation. All of them are in the South and only one or two of these states are industrialized to any degree.

There is now no Federal law on this subject for the entire United States, for such a national law would probably require an amendment similar to the proposed child-labor amendment. However, there are Federal compensation laws for the employees of the national government and for workers engaged in interstate commerce. In 1928 a Federal Compensation law was passed for the District of Columbia.

The British Workmen's Compensation Law has been the model for many American commonwealths. One danger of this form of administration has been indicated. It is further contended that the state fund system is cheaper and more reliable than direct payment by the employer with optional insurance on his part in private companies. For large industrial states the mutual association of employers under government regulation has certain advantages.

Not only the form of administration but also the inclusiveness and the scale of payments vary greatly from state to state. Domestic and farm laborers are generally excluded. In some cases the victims of occupational diseases are not permitted to share the benefits of workmen's compensation laws. In the absence of uniform legislation the upward standardization of benefits paid by various state compensation laws would be helpful.

Rates are generally based on the wages of the worker, and the percentages paid as benefits vary with the seriousness of the injury. Most

states have fixed maximums of from $10 to $20 a week. In many states there is a further time limit during which such benefits may be paid, at the expiration of which period the totally disabled worker is denied further financial aid.

Workmen's compensation laws represent a distinct advance over employers' liability laws. This form of social insurance has now established itself in the United States. It is still necessary, however, to secure such legislation in several of our states,[1] as well as to raise standards generally to certain uniforml evels. The American Association for Labor Legislation has striven not only to reduce the hazards of industry but also to standardize and to raise the general level of state workmen's compensation laws.[2] Numerous excluded groups should be included, such as the victims of occupational diseases. In many states the scale of benefits should be raised and the waiting period shortened.

17. Health Insurance.—Germany began its national system of compulsory sickness insurance with the law of 1883. Just before the outbreak of the World War, over two-thirds of all individuals gainfully employed were included within its provisions. The employers were forced to purchase insurance stamps equivalent to the necessary premiums and to see that they were regularly attached to the cards which all insured workers carried. Employers paid one-third of the cost of these stamps and deducted the other two-thirds from the worker's wages. The administration of this sickness insurance was placed in the hands of sick-benefit associations, composed of employers, employees, and public spirited citizens, under the supervision of the Imperial Insurance Office.

The benefits of the German program of health insurance were both medical and financial. They included free surgical attendance, admission to a hospital when necessary, free medicines, and such appliances as spectacles and artificial limbs. After the third day of sickness half wages were paid which were continued during the period of absence from work but not beyond a maximum of 26 weeks. Funeral and maternity benefits, as well as the pensions for widows and orphans, were included.

German statistics showed that there was an average of 8 days of illness for every person insured. Moreover, there seemed to be an increased amount of sickness with the application of sickness insurance. On the other hand, there was a decided decrease in the death rate and in the amount of pauperism.

The successful experience of Germany induced Great Britain to utilize the weapon of social insurance in her war against poverty. The

[1] South Carolina, Arkansas, Mississippi, Florida, 1929. While this book was at press North Carolina finally passed a Workmen's Compensation Act.

[2] *American Labor Legislation Review*, January, 1924. (See model bill.)

Workmen's Compensation Act of 1897 was followed by the National Insurance Act of 1911. Sickness insurance, as well as unemployment insurance, was added to the existing industrial accident insurance.

Under the National Insurance Act of 1911 every British worker receiving less than a certain wage was required to be insured against illness. A system of stamps and cards was used which resembled that of Germany. The premiums were paid jointly by employers and employees, but the workers' share was only about one-half instead of two-thirds as in Germany. The responsibility for the enforcement of the law rested on the employers who were required to see that the workers possessed sickness insurance cards and that the proper stamps were regularly affixed. The benefits of the British system of sickness insurance resembled those of Germany, for it included both medical attention and financial assistance.

The British worker originally paid 3 or 4 pence a week, and the employer contributed almost an equal share, whereas in Germany the employer paid only one-third of the premium. Flat sums were specified in the British law as contrasted with certain percentages of the wages in Germany. Hence, it has been necessary for the British Parliament frequently to amend the original act and often to increase these amounts as the general price level rose.

The original British Health Insurance Act of 1911 was greatly modified in 1920. All manual workers between the ages of sixteen and seventy were included, as well as non-manual workers whose annual earnings were less than 250 pounds a year. The male employee paid 5 pence a week, and the employer a similar amount. The government subsidized the scheme by adding a sum equivalent to about one-fourth of the total. The insured male worker, certified by a physician as incapable of employment because of ill health, received 15 shillings a week after an initial waiting period of 3 days. After 26 weeks of illness this weekly benefit was reduced to one-half, but it was continued until the worker was able to resume his employment.

The British system of sickness insurance is administered by a number of approved non-profit-making societies under the supervision of the Ministry of Health. The worker may choose a commercial company, a trade union, or a friendly benefit society for the purpose of sickness insurance. The Act of 1920 has been amended by subsequent legislation, though the general plan has changed but little.

Between 1883 and the outbreak of the World War universal health insurance acts were introduced into several other European countries, although in some of them restricted to a few occupations. During the war and in the years of reconstruction which followed it, health insurance was introduced into many other countries and extended more widely in those countries which had already introduced it. In 1927 health

insurance existed in sixteen European countries, as well as in Japan and Chili. Moreover, its occupational coverage had been extended in many lands to many more groups of wage earners.

Although health insurance has passed the experiental stage in Europe, it has not found popular support in the United States. In spite of the enormous social and economic burden of sickness, this form of social insurance has not made much headway in this country. Although the present outlook is not very promising, the future development of the public health movement in this country may be accompanied by compulsory sickness insurance. Public opinion is forming on the subject, but it has not yet crystallized into law.

Sporadic efforts at this type of legislation have been attempted, but they have been viewed as paternalistic. Moreover, they have been opposed as difficult of administration and as easy of abuse. The feigning of sickness or malingering might occur in spite of the necessary certification by a medical officer.

The advocates of sickness insurance point out in reply that sick benefits are decidedly less than the wages received, and that there is an initial exemption period of several days. The purpose of the latter is to lighten the administrative problem by the elimination of minor ailments and very short absences from the scheme of sickness insurance.

18. Scope of Old Age Pensions.—In addition to the risk of accident and illness, the worker is confronted with the possibility of a dependent old age. Instead of the comforts which should surround the declining years of life, the aged employee is faced with a loss of employment and a possible reliance on charity.

Benevolent employers and certain large corporations have developed pension systems on their own initiative for their own workers. National, state, and local governments have also generally performed this service for their aged employees. A number of fraternal societies and a few trade unions also pay old-age benefits. There are, of course, private companies which pay annuities to those individuals who have insured themselves. Although very desirable, such schemes do not represent adequate social insurance against old age. They are limited in scope, for they are not compulsory and do not cover all workers.

The relative necessity and justice of old-age pensions as compared with sickness insurance are difficult questions. The number of individuals affected by the former is undoubtedly less than the number affected by the latter. Again, there is perhaps less chance of abuse in the case of old-age insurance than with health insurance. The administrative difficulty is just as great, however, unless a system of gratuitous pensions is adopted. Such a plan is said to discourage thrift on the part of the individual worker. On the other hand, old-age pensions are

preferable to charitable relief from both the viewpoint of society and the individual recipient.

19. Governmental Provision for the Aged in European Lands.—Compulsory old age insurance was unknown until Germany again took the lead in this form of social insurance in 1889. Employers were required to see that every employee sixteen years of age or over had an old-age card and that stamps covering the required premiums were regularly affixed thereto. The employer bought these stamps from the government and then gave the employee his stamp each week, paying half the cost himself and taking the other half from the employee's wages. The premiums were small, and the annuities correspondingly meager. Consequently, the government added a subsidy.

Inasmuch as the worker pays a portion of the premium, the German system represented old-age insurance rather than old-age pensions. But Denmark in 1891 met the same problem by a national system of gratuitous old-age pensions. Great Britain also adopted the latter scheme after considerable study.

Under the British Old-age Pension Law of 1908, every wage earner of seventy years of age or over, who had lived in the kingdom for the previous 20 years, whose total yearly income from other sources did not exceed 31 pounds and 10 shillings, and who had been an industrious worker, might receive an old-age pension from the state. This varied from 1 to 5 shillings a week.

This act was amended in 1911 and 1919. The maximum was increased from 5 to 10 shillings a week. Moreover, the pension was extended to all workers whose total yearly income from all other sources was less than 49 pounds, 17 shillings and 6 pence. A British act passed in 1924 and operative since 1925 supplemented the existing old-age pension system by providing for widows and orphans.

At the present time there are over a million persons in Great Britain who receive governmental old-age pensions. The majority of them are women. At present no less than fifteen million Britons of the wage-earning classes are covered by ill health, unemployment, accident, old-age, or life insurance imposed or furnished by the state.[1] If their dependents are included, the number of people covered by all forms of social insurance in Great Britain is surely at least thirty millions.

Canada in 1927 enacted a Federally subsidized provincial system of old-age pensions, into which British Columbia and the Yukon Territory have already entered. Old-age pensions have already well established themselves on the continent of Europe and in most industrial nations of the world. Invalidity and old age have been the subject of special legislation in twenty-six foreign countries either through a system of compulsory insurance or of non-contributory pensions. About one-half

[1] *Time*, Jan. 16, 1928.

of these countries had such legislation before the World War, and the remaining half have passed it since the war. The ardent advocates of this form of social insurance contend that the only populous countries without old-age pensions or some similar provision for aged dependents are China, India, and the United States.

20. Old-age Pensions in America.—Old-age pensions are very common in the United States, but they are generally administered by private concerns for their own employees. The national government has compulsory old-age insurance for its employees. The same is true of teachers and other employees of most states. There is, however, no national system of old-age pensions which applies universally to all workers.

Attempts have been made in several states at this form of social insurance, but little general progress was made until recently. Again, the laws of Arizona and Pennsylvania on this subject have been held to be unconstitutional. The Pennsylvania law of 1923, which was modeled after the British Old-age Pension Law, was held by the courts of that state to be a violation of a provision of the state constitution which forbade the giving of gratuitous pensions to any individuals except to those who had rendered military service.

At the present time (1928) six states[1] and the territory of Alaska have adopted straight old-age pension laws, based on the standard bill advocated by the American Association for Labor Legislation. They provide that a citizen of seventy years of age or more, who has resided continuously for 15 years within that state, if the value of the applicant's property does not exceed $3,000, shall be entitled to a pension which, when added to other income, shall not exceed a total of $1 a day.

21. Invalidity Insurance.—Invalidity insurance takes the form of a payment of benefits to those who are incapacitated for work by reason of some physical infirmity other than that of old age. Thus, the loss of sight or hearing may prevent an individual from remaining self-supporting. Such invalidity may not be the result of an industrial accident. Hence, it would not come under the provisions of workmens' compensation laws. Again, the disability may extend far beyond the time limits of sickness insurance. Invalidity insurance merely pleads for the further extension of the principle of compensation which developed first for the victims of industrial accidents.

In order to avoid the baneful effects of charity, the state might well pension such unfortunate members of society in proportion to their loss of earning capacity. Thus, the number of occupations open to the blind is necessarily small and their possible earnings are very meager. Hence, certain communities have provided that the blind, who are

[1] Montana and Nevada, 1923; Wisconsin, 1925; Kentucky, 1926; Colorado and Maryland, 1927.

attempting to earn a living and who are not recipients of charity nor of workmen's compensation, shall receive a stipend from the public treasury.

22. Mothers' Pensions.—Mothers' pensions are gratuitous payments by the state to the needy widows and orphans of wage earners. In general, such pensions are very small in amount and are restricted to those who have no other means of support. Their aims are the substitution of a pension system for charity, the lowering of infant mortality, and the prevention of young children from growing up under conditions of pauperism.

This is one form of social insurance in which the United States has taken the lead. At present about forty states have enacted some kind of mothers' pension law. Mothers' pension laws are also in operation in several European countries and in New Zealand.

Legeslation has been passed in many states not only for widows pensions but also to provide medical and surgical care for mothers during child-birth.

23. Voluntary and Private Pension Systems.—One of the earliest and most common forms of compensation on individual initiative was to place the injured or aged employee in an easy or sedentary position. Thus, the railroads employed their crippled or aged workmen as flag men at grade crossings, as watchmen about their yards and warehouses, and as ticket takers at subway stations. But the number of such positions is limited, and the advisability of such a policy is questionable on many grounds. At best, it represents only a step toward a comprehensive and adequate pension system.

One of the first important private pension systems was that established by the Baltimore and Ohio Railway in 1884. Since that time a number of other railroads and public utility companies have adopted somewhat similar plans. The movement has also spread to many large industrial, mercantile, and financial companies. Among the best known pension plans are those of the Pennsylvania Railroad, the Standard Oil Company, the United States Steel Corporation, and the Colorado Fuel and Iron Company.

Some of the so-called "pension systems" require a small but systematic contribution from the employees. For the most part, however, they are gratuitous or non-contributory. The age of enforced retirement is commonly between sixty and seventy years of age. A prior record of fairly continuous and satisfactory service is generally required. This varies in the different plans from 10 to 30 years. The amount of the pension is generally a certain portion of the wage received at the time of retirement. It is usually small in amount, but sometimes in excess of that granted by states which have old-age pension laws.

The purposes of the pension systems of large industrial concerns are no doubt humanitarian, but they are also economic in character. Pen-

sion systems make for efficiency, stability, and loyalty among the employees. The aged and inefficient worker is removed from an industrial organization in which speed and accuracy are of vital importance.

Pension plans also reduce labor turnover. If workers leave and later return, they are frequently granted claims on the pension system based only on the date of reentry into the service of the company. Again, the likelihood of a strike is reduced, for participation therein generally involves a loss of pension benefits. Indeed, pensioned employees may be used as a kind of labor reserve for emergencies. It has even been suggested that they be used as strike-breakers.

It is interesting to note that some excellent pension systems have been developed where wages are low and working conditions are far from satisfactory. Indeed, some of the most widely advertised pension plans are those of industrial organizations which are hostile to organized labor and which maintain the open shop or the company union.

Even if we assume that private pension plans are inspired by the best of motives and that they are operated on broad humanitarian principles, rather than for selfish reasons, private pension plans must be indicted on the grounds of their inadequancy. In spite of the existence of numerous splendid private insurance plans, as a whole they are not sufficiently inclusive. Many workers are employed by concerns which have no pension systems. Thus, it was estimated in 1925 that not more than 2.5 per cent of the industrial workers of the United States came under pension systems.[1] Moreover, the age of retirement is often so advanced, and the length of continuous service which is demanded is so great, that only a small portion of this little group will ever be able to participate in the benefits of these plans. A broad program of social insurance seems to be the only answer to the problems of compensation for the aged veterans of industry, as well as for the victims of industrial accidents and occupational diseases.

24. Summary.—Industrial accidents, as well as the sweatshop, represent another serious form of human waste in industry. The unregulated employment of individuals at dangerous trades, like the exploitation of women and children in industry, is an important social maladjustment. The national vitality is also impaired by the tremendous amount of general sickness, which can be further reduced by modern hygienic measures. These economic losses, as well as their individual costs, create a serious problem of human conservation in industry.

The statement of the problem suggests methods of approach. The safety-first and health movements in industry seek to reduce the human costs thereof to an irreducible minimum. The cooperation of the employee, the employer, and the state are necessary for the realization

[1] Epstein, A., "Paper before the American Association for Labor Legislation," December, 1925.

of this ideal. Remedial as well as preventive measures are necessary. Provisions must be made for the victims of modern industry. These include (1) medical and surgical care, (2) educational or rehabilitation work, in order that the injured worker may become economically independent so far as possible, and (3) financial assistance in the form of social insurance.

The common generalization that the enterpriser assumes the risks of industry is not entirely true. Although he assumes important financial risks for the capital invested, which may justify the existence of profits, the worker bears many of the so-called "human" risks of industry. Previous chapters have indicated that there is no guarantee to labor of a living wage, and the following chapter will discuss the problem of economic insecurity and unemployment. In addition to the constant hazard of occupational accident or sickness, there is also the hovering spectre of a dependent old age.

For the financial compensation of those individuals who are the victims of the hazards of modern economic organization, social insurance has been developed. This is an application of the principles of insurance to the human risks of industry, the financial incidence of which is diffused throughout society in general. Although often voluntarily undertaken by private corporations and by trade unions, social insurance implies the element of compulsion, general application, and governmental supervision. State subsidy is justified because of the reduction in the number of appeals to public and private charity.

Workmen's compensation laws provide for a remuneration to the victims of industrial accidents in proportion to the loss of earning power which results. They are a distinct advance over the older employers' liability acts, because the employee is no longer obliged to bring suit, nor to prove the direct responsibility of the employer.

Although compulsory sickness insurance has developed in Europe on a wide scale, it is almost unknown in America. Dependent old age may be avoided by either old-age pensions, as in Great Britain, or by old-age insurance as in Germany. Neither plan has made much progress in America. Perhaps the most debatable type of social insurance is that of unemployment insurance. This will be discussed in the following chapter.

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Questions for Discussion

1. Show the present significance of the problem of industrial accidents in the United States.
2. What are some typical dangerous trades and why?
3. Outline some of the chief sources of danger in industry.
4. Show the significance of the problem of national sickness.
5. Compare workmen's compensation laws with employers' liability acts.
6. Define social insurance. What are its essentials?
7. Make out a case in favor of compulsory health insurance in the United States. Point out the objections.
8. Show the different methods of administering workmen's compensation.

9. Compare old-age insurance with old-age pensions.
10. Compare the necessity and dangers of sickness insurance with those of old-age insurance.
11. Show the adequacy or inadequacy of private pensions.
12. Why is insurance essentially social in character?

Topics for Investigation

1. The reduction of mine accidents.
2. The rehabilitation of industrial cripples.
3. The Federal government and railroad accidents.
4. Merits and defects of the workmen's compensation law of your state.
5. Safety of mines in Europe and the United States.
6. Germany, the pioneer in social insurance.
7. Mothers' pensions in the United States.
8. The success of state funds in the United States for the administration of workmen's compensation laws.
9. The standard workmen's compensation bill advocated by the American Association for Labor Legislation.

CHAPTER XI

THE PROBLEM OF UNEMPLOYMENT AND ITS REDUCTION

ECONOMIC SECURITY THROUGH THE RATIONALIZATION OF INDUSTRY

1. Nature of Unemployment.—Unemployment may be defined as idleness on the part of the worker which is not due to his own physical, mental, or moral incapacity.

It is important at the very outset that a distinction be drawn between the unemployed and the unemployable. The latter is a problem of sociology, but the former is one of economics. The unemployed, as contrasted with the unemployable members of society, are those workers who are capable and desirous of employment, but who are unable to secure work because of some maladjustment in the economic order over which they have little control. The unemployed are potential economic producers who belong in neither the leisure class nor in the social debtor groups of defectives, delinquents, or dependents.

Unemployment is enforced idleness, due to some friction in our modern, complex, industrial organization. A vacation, on the other hand, is a voluntary cessation of work for the purpose of mental or physical recreation.

Irregular employment and underemployment are special phases of unemployment. Irregular employment is represented by the lack of steady work and by the existence of only intermittent employment. Underemployment is an irregularity of employment or an actual lack of employment to the extent that the worker is unable to earn wages sufficient to maintain a minimum standard of living. The irregularly employed workers tend to be underemployed, because the wages of many workers are not large enough to protect their standards of living against the inroads of unemployment or even of irregular employment.

Although the unemployed must be distinguished from the unemployable, there is a tendency of the unemployed or the irregularly employed workers to drift into the ranks of the unemployable, as habits of thrift and industry are gradually broken down. Thus, the unemployed worker may be reduced to the level of poverty, or, if he becomes a recipient of charity, to the level of pauperism.

2. Types of Unemployment.—Although it is impossible to classify unemployment into various categories, several general types may be suggested. These have been referred to as casual, seasonal, cyclical, and secular or technological unemployment. Although related to each other, the problem of unemployment is somewhat different in each case.

Casual unemployment represents the day to day and even the hour to hour fluctuations in the amount of unemployment. It is well illustrated by the continually fluctuating demands for the employment of dock hands and longshoremen. These casual laborers are busy when several ships are in port, but idle until another boat arrives. Casual unemployment is peculiarly acute among unskilled workers in those industries which have built up large labor reserves. The irregularly employed workers about the gates of a factory illustrate this type of unemployment.

Casual unemployment represents a faulty organization of the labor market which occurs in some of the skilled and semi-skilled occupations, as well as among unskilled laborers. For illustration, numerous coal mines do not operate continuously, but only two, three, or four days a week. This unemployment is in part seasonal, but chiefly casual.

> The industry's failure to provide regular employment is well known, in the 10 years from 1910 to 1921 the working time of the miners averaged only 214 days a year.[1]

Seasonal unemployment is a month to month or quarter to quarter variation in the amount of unemployment. It may be due to the seasonal character of production, as for illustration, in agriculture, lumbering and constructive work, or to the seasonal character of demand, as for illustration, in the production of clothing and millinery. Seasonal unemployment, accompanied by overtime in busy seasons, is due to the variations in the weather which cause seasonal increases and decreases in the consumption and production of various goods.

Cyclical unemployment is caused by the yearly variations in employment due to the alternating periods of prosperity and depression, representing different phases of the business cycle. Cyclical unemployment seems to recur at intervals of several years or even a decade apart. The existence of business cycles with their fearful periods of depression and unemployment constitutes a serious challenge to modern capitalism. Cyclical unemployment, as well as casual and seasonal unemployment, is indicative of the planlessness of our present industrial organization.

The business depression of 1921 affords a striking illustration of how this phase of the business cycle is accompanied by a great increase of unemployment. During this six months or a year millions of workers were thrown out of employment for reasons entirely beyond their control. The United States Bureau of Labor Statistics completed a survey in August, 1921, which indicated that the number of unemployed at that time was over five and three-quarter millions.

In addition to seasonal fluctuations and cyclical variations, there is a long-run tendency which is known as the secular trend. It would seem

[1] Hamilton, W. H., "Problem of Bituminous Coal," *American Labor Legislation Review*, p. 221, September, 1926.

that during the present decade there has been a secular trend toward decreased employment, or rather toward greater irregularity of employment and an increased liability toward unemployment. This recent secular trend of unemployment has been termed "technological" unemployment, for it is due to the rapid invention of new machinery and to the constant introduction of new industrial processes.

The early Industrial Revolution in England was accompanied by a serious and protracted condition of unemployment among numerous groups of craftsmen. The new Industrial Revolution in the United States was discussed in Chap. IV. Although industrial productivity has recently increased by leaps and bounds due to the increased mechanization of production, these technological changes have created a serious problem of unemployment to numerous groups of factory workers.

3. Is Unemployment Increasing?—In the long run the supply of labor and the demand for labor must balance. It is also true that the supply of labor constitutes a potential demand for the products of labor. How then can there be a secular trend toward increased unemployment?

To the extent that a worker produces, he is able to consume, provided, however, that his increase in wages is proportionate to his increase in productivity. Again, an increase in the supply of labor is an increase only in the potential demand for labor and not necessarily in either an actual or a proportionate increase in effective demand.

It will be shown in a later section of this chapter that unemployment is essentially a maladjustment between the supply of labor and the demand for labor. Although temporary and local in its particular aspects, this maladjustment may be continuous, displaying itself sometimes here and sometimes there, but always somewhere. Again, this maladjustment may become greater over a period of years, if the decade is a very dynamic one rather than representative of a fairly static condition.

Changes in methods of production may be so rapid over a period of years that the labor market cannot adjust itself to them in time to prevent an increase in unemployment. This lag between technological progress and labor adjustment may be a considerable one. Moreover, it may increase, and thus swell the volume of unemployment during a period of industrial revolution. Such was the situation in England over a century ago. It is apparently true, also, of the United States at the present time.

There was a post-ward trend toward increased unemployment in England. This increase of unemployment, however, was due to the loss of certain foreign markets, to the reduction of England's international trade, and to other economic changes rather than to a greatly increased industrial productivity.

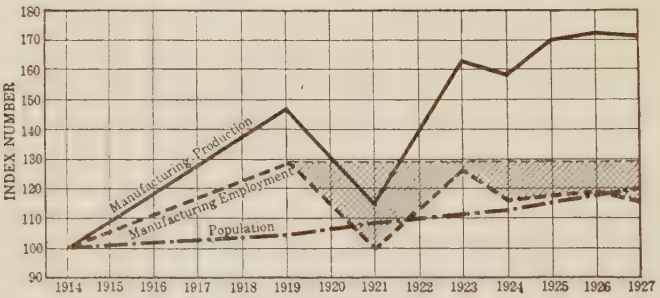
Although many economists maintain that the unemployment resulting from the introduction of machinery is temporary rather than permanent, and local rather than general, other students of the problem do not share this general optimism. Our modern industrial society is a dynamic and not a static one. In its final analysis, a long-run trend is the resultant of numerous short-run tendencies. John A. Hobson, the great English economist summarized the situation as follows:

> That the net influence of machinery is to diminish employment so far as those industries are concerned into which machinery directly enters, and to increase slightly the demand in those industries in which machinery affects but slightly or indirectly. The tendency is to draw ever and ever larger numbers of workers from the less to the more unsteady employment.[1]

Whatever the explanation may be, inductive quantitative studies of the recent development in the United States indicate that our increase

CHART 35.—MANUFACTURING PRODUCTION MANUFACTURING EMPLOYMENT AND GROWTH OF POPULATION (1914–1927)

(Base—Level of 1914 = 100 Per Cent. Shaded Area Indicates Group Employed in 1919, for Whom There Has Since Been No Employment)



From an article in the New York Times entitled "Work of the Machines Makes Idle Hands" by EVANS CLARK. *Reproduced from American Labor Legislative Review, p. 67, March, 1928.*

It was here claimed that in 1927 our factories produced 16 per cent more than they did in 1920 with 11 per cent fewer workers and 4 per cent more than in 1923 with a labor force reduced by 9 per cent.

of industrial productivity has been greater and more rapid than the increase in employment. The situation has been illustrated graphically in charts 35, 36 and 37. The above chart traces the relative course of manufacturing production, manufacturing employment, and population from 1914 to 1927. Cyclical fluctuations as well as secular trends may be seen. Chart 36, p. 281, gives the secular trends of agricultural production, farm population, and agricultural employment from 1899 to 1925. It would seem that farming is not absorbing the workers displaced by technological unemployment in industry. Chart 37, p. 281,

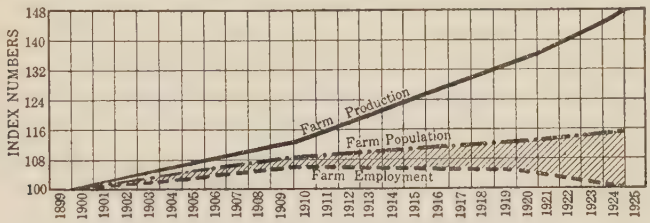
[1] HOBSON, J. A., "The Evolution of Modern Capitalism," pp. 234–235.

pictures the relation between production and employment for the relatively brief period since the World War.

In 1927 and 1928 the problem of unemployment was very serious. The Labor Bureau, Inc., estimated in 1928 that four million workers were out of employment. The United States Bureau of Labor Statistics

CHART 36.—AGRICULTURAL PRODUCTION, FARM POPULATION AND AGRICULTURAL EMPLOYMENT (1899–1925)

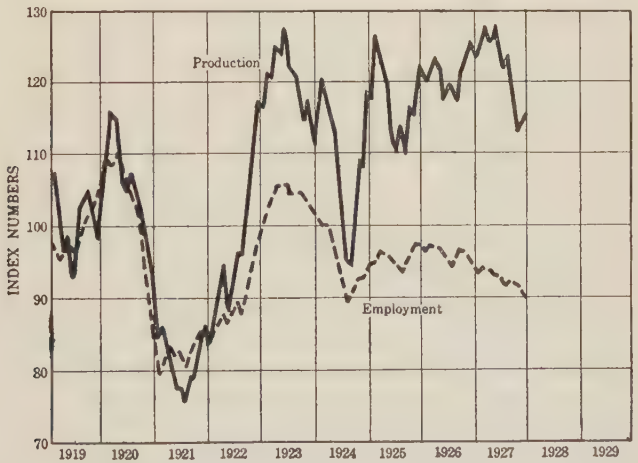
(Base—Level of 1899 = 100 Per Cent. Shaded Area Indicates the Excess of Farm Population over the Number Needed to Operate the Farms)



Reproduced from American Labor Legislative Review, p. 67, March, 1928.

CHART 37.—PRODUCTION AND EMPLOYMENT IN THE UNITED STATES (1919–1927)

(Base—Average 1919 Level = 100 Per Cent)



Reproduced by permission from American Labor Legislative Review, p. 60, March, 1928. Chart prepared from figures of the Federal Reserve Board.

had shortly before contended that for the country at large in 1927 employment in manufacturing dropped to a point lower than for any year since 1914 except that of 1921, which, as just indicated, was a year of great business depression. The American Federation of Labor officials reported in February, 1928, that the average unemployment in

twenty-three leading industrial cities of the United States was over one-sixth of the total number of workers represented by their unions.[1]

The more recent crisis of 1929 and 1930 revived an interest in the causes, effects, and reduction of unemployment. Attention was called to public labor exchanges and governmental planning of public works during periods of unemployment. The latter has been referred to as a prosperity reserve.

The unemployment crisis of 1929 and 1930 also called attention to the lack of available, accurate, and official information at any given time of the volume of employment. It was felt that the power and duty of the Federal government should be extended in the matter of compiling national studies of unemployment, as well as of other hazards of industry.

4. Amount of Unemployment.—It is only rather recently that the amount of unemployment has been studied in a scientific manner. The former approach was to provide means of temporary relief rather than to study the causes of this economic problem. Of recent years, however, a number of excellent studies have been made by various public and private agencies of the amount, the causes, and the effects of unemployment, as well as of the numerous remedial measures that have been proposed from time to time.

All studies of the problem of unemployment indicate that it is a chronic as well as an acute problem. In spite of popular opinion to the contrary, a period of prosperity does not entirely eliminate unemployment, even though it does reduce its amount. Thus, the Committee on Waste of the Federated Engineering Societies found that a million men were out of work during the so-called "war-time" prosperity of 1917 and 1918, when it was commonly supposed that every man could easily get a job if he were so disposed. Again, in Beveridge's classic study of unemployment is the conclusion that although the rate of unemployment in Great Britain varied with the business cycle, yet at the very minimum of unemployment 2.2 per cent of trade unionists were out of work. Although the volume of unemployment increases greatly during periods of economic depression and decreases in periods of prosperity, there seems to be a continuous but varying amount of unemployment throughout all phases of the business cycle.

Because of the great variations in the volume of unemployment among different occupations, industries, seasons, and phases of the business cycle, it is difficult to make any general estimate as to the average amount of unemployment. It is generally conceded that unemployment, especially casual unemployment, is greater among the unskilled than among the skilled occupations. Again, the problem is

[1] *American Labor Legislation Review*, p. 65, March, 1928, and p. 150, June, 1928.

more acute in the winter than in the summer months, when agriculture "takes in a certain amount of the slack." Unemployment also displays itself more intensively in the city than in the country, for the problem is perhaps more industrial than agricultural. There is a general tendency of the unemployed or migratory labor to flock to our cities during the winter months and then to flow out again into the country during the spring and summer. In the meantime urban demands on charity are taxed to the utmost.

The Commission on Industrial Relations estimated that the wage earners in the principal manufacturing and mining industries lost on an average from one-fifth to one-fourth of their working time during a normal year because of unemployment, and that even in the highly organized trades during the periods of greatest industrial activity, from 7 to 20 per cent of all the members of the unions were unemployed.

According to Dr. Hart, from 1,000,000 to 6,000,000 workers, exclusive of farm laborers, were idle continuously from 1902 to 1917. He concluded that the average number of unemployed was about 2,500,000 or nearly 10 per cent of the employable group.[1]

A review of the various American estimates of unemployment gave rise to the summary than at an average of at least 1,500,000 industrial wage earners in the United States are continually unemployed, taking poor and prosperous years together, and that the average worker loses about 10 per cent of his working time through unemployment alone.[2]

5. Social Costs of Unemployment.—Although unemployment is costly to employers and to society in general, its chief burden rests on labor. To the worker unemployment means the loss of wages and a temporarily or permanently lowered standard of living. As his meager savings are soon exhausted, the man out of work faces the unpleasant alternatives of starvation or charity.

Unemployment affects other workers besides the unemployed, because a general wage reduction is apt to occur. Discharged laborers naturally seek employment elsewhere in other occupations where the increased demands for work facilitate the cutting of wages. Individuals out of employment will often work for less money than they formerly received, and sometimes even for less wages than other workers in those jobs to which they aspire.

Unemployment has a psychological as well as a material effect on the discharged worker which is equally demoralizing. Irregular employment makes difficult the formation of steady habits of thrift and industry. It is easy to drift with the current into the great river of casual and

[1] HART, H., "Fluctuations in Unemployment in the Cities of the United States, 1902–1917."

[2] BRADFORD, E. S., "Industrial Unemployment," U. S. Bureau of Labor Statistics, *Bulletin* 310, p. 2.

migratory laborers. It is equally easy for the unemployed or the irregularly employed eventually to float out into the great sea of poverty and pauperism. The change from a casual or migratory laborer into a tramp, a delinquent, or a dependent is as easy as his transformation into a steady and industrious worker is difficult.

Unemployment is costly to the employer as well as to the employee. Although the employer may have a greater financial reserve than his employee, a closed factory pays no dividends. Overhead charges, such as the interest on idle capital, soon eat up past earnings. Moreover, the "laying off" of workers tends to break up the employer's organization, and its general efficiency is lower when increased output again becomes necessary. Even under normal conditions the continual "hiring and firing" of labor is expensive.

The economic costs of unemployment to society in general are also important. Unemployment creates more unemployment. The majority of consumers are wage earners, and unemployment reduces their purchasing power. Consequently, their effective demand for various economic goods declines and production falls off proportionally. This, in turn, creates more unemployment and the vicious circle is complete.

The social costs of unemployment may also be read in the rates of crime and poverty. Unemployment is both a cause and a result of dependency and delinquency. A period of industrial depression, with consequent loss of employment, will increase greatly the demands on public charity. There is also apt to be an increase in petty crimes against property, if not in more serious crimes against person.

Unemployment among adult male workers may be either a direct or a contributory cause of child labor and of the entrance of women into industry. The desire to supplement the family income in this crisis may lead to the employment of women and children under sweatshop conditions. The entire labor market becomes "easy."

Unemployment breeds discontent, radicalism, and a general spirit of unrest against the existing economic order. Workers who are able and willing to work, but unable to find employment, are easy converts to revolutionary doctrines and disorderly actions. On the other hand, regularity of employment and a living wage are the best practical arguments among laborers in the defense of the *status quo* of modern industrialism.

6. General Causes of Unemployment.—The causes of unemployment, like those of any other social problem, may be divided into objective or environmental causes and into subjective or personal causes. Subjective and objective causes, however, are in reality merely two different ways of analyzing the same set of factors. As far as the economic problem of unemployment is concerned, individual cases do not determine the fact of unemployment but rather its incidence. Personal

causes do not determine so much the existence or the amount of unemployment as they do which individuals will be out of work when unemployment exists.

Individual, contributory causes of unemployment include intemperance, crime, indolence, disease, degeneracy, old age, and various physical, mental, or moral defects. These factors, however, need not be stressed for they are more important in a causal analysis of the unemployable group than of the unemployed group.

Objective or environmental causes of unemployment may be grouped under the physical, the social, the economic, and the political environment. It goes without saying that any such classification is both arbitrary and overlapping. Nevertheless, it is convenient. Under the physical environment may be mentioned such causes of unemployment as floods, earthquakes, storms, and droughts. Under the social environment may be mentioned such direct or contributory causes of unemployment as may be found in our social, economic, and political institutions. An indifferent public opinion retards the removal of the great economic and social maladjustment of unemployment. War is often a direct cause of unemployment, both at home and abroad. Thus, during the American Civil War many of the cotton mills of England were closed and thousands of English textile workers were thrown out of employment.

The most important and most direct causes of unemployment, however, are to be found in our economic environment. Any survey of the problem would be incomplete without some mention of the following causal factors: maladjustments in the equilibrium of the demand for and the supply of labor, changes in methods of production, changes in the demands of consumers, seasonal occupations, the business cycle, industrial conflict rather than cooperation, and changes in the tariff and international trade.

7. Maladjustments in Labor Demand and Supply Equilibrium.—Unemployment is peculiarly a problem of our present specialized economic society, resting on division of labor and exchange. Unemployment in the strict sense of the word did not exist in a simple economic order where production was direct rather than roundabout, and where the producer and the consumer were identical.

The American pioneer was his own butcher, baker, and candlestick maker. He used his own time at his own direction for the production of such goods as were necessary for the satisfaction of his elementary wants. There were few tools or other forms of capital, and there was no extensive wage system. The worker was his own employer and independent of distant markets and general industrial conditions. The economic forces of supply and demand were crystallized in his own person. Hence, there was no problem of unemployment.

The frontier has long since disappeared from American life and modern industrialism has taken its place. Industrial evolution has resulted in the transition from a simple to a complex and from an undifferentiated to highly specialized economy. Today, few people satisfy directly by their own labor a given economic want. On the contrary, most individuals consume daily the products of thousands of different specialized workers whom they have never seen. Likewise, they limit the scope of their own labor to the production of one economic good or, rather, to one particular phase of its production. This great cooperation of specialists is made possible only by the similar development of a very intricate mechanism of exchange. Regularity of employment now depends on the nicety of adjustment between the consumption and production of countless economic goods and services, made by innumerable specialists who are unknown to each other

Division of labor has made possible the production of more goods, cheaper goods, and, perhaps, better goods, but it is fraught with certain grave dangers, one of which is that of unemployment. As long as this delicate machinery of specialization and exchange works smoothly, all is well; but if friction occurs in some one part, the whole mechanism suffers. A Swiss watch is a better timepiece than a sun dial, but it gets out of repair more easily.

Standards of living are higher today than before the Industrial Revolution and the poor man's table has on it comforts from all parts of the world. Nevertheless, this very interdependence of our modern economic world makes it a veritable house of cards. Thus, a strike among the coal miners of Pennsylvania may force New England textile mills to close, and a drought in Argentina may put London dock hands out of work. We have passed from a local to a national economy and from a national to an international economy. American tariffs and German reparations decidedly affect the unemployment problem in England.

Not only is there division of labor among individuals and among territories but also over periods of time. Modern economic production is not only specialized but also roundabout and capitalistic. Labor was formerly applied directly to natural resources for the production of some finished consumption goods. Today, labor first spends itself on the production of capital, and then, aided by the use of these capital goods, labor turns toward the final production of the desired consumption goods. Capitalistic or roundabout production is far more effective than the direct method, but it is easily capable of misdirection. In such a case great economic and human loss results, not the least of which is the problem of unemployment.

Between the raw materials of production and the finished consumption goods many stages interpose. The wool on the sheep's backs may

be sheared next year, carded several years hence, woven into cloth still farther in the future, and not made into clothing until the next generation. In other words, production is not only capitalistic and roundabout, but it is carried on in anticipation of demand rather than in response to demand. This necessary condition enhances the possibility of error in production and the seriousness of changes in consumers' wants.

Although general overproduction is impossible, in the sense that more goods may be produced than can be consumed, it is possible to have misdirected production or the making of more goods than can be sold at a profit above the former costs of production. Again, there may be the overproduction of particular goods, although not of all goods.

Because modern production is spread out over a long period of time, the original wants of the consumers may change in the meantime. The demand, in anticipation of which production has been carried on, may vanish. The results of misdirected production are economic depression and unemployment.

Most of this may be summed up by saying that unemployment arises from a disturbance of the equilibrium of the demand for and the supply of labor. Of course, labor creates its own demand for its own products. In the final analysis, producers are consumers and consumers are producers. It is perfectly true that in the long run the demand for and the supply of labor must balance. This economic principle, however, like any other scientific law merely states a general tendency. There are numerous opposing forces and disturbing influences, for modern industrial society is complex and not simple, dynamic and not static.

At any given moment there may not be a perfect balance between the demand and supply of labor. Although in the long run the demand and supply forces of labor are the same, there may exist unbalanced industries, unbalanced localities, and unbalanced periods of time. Hence, the maladjustment of unemployment will continue to display itself, now here and now there, but always somewhere. It may be temporary, local, or particular, that is, affecting only a given time, a given industry, or a given group of workers, but for society in general the maladjustment is permanent and continuous.

A dynamic, complex, and interdependent society may reduce unemployment through better industrial planning, but it is almost impossible ever to eliminate it entirely. The danger of unemployment is inherent in our specialized, interdependent, and capitalistic economy, in which production is carried on by private enterprise and on individual initiative rather than by collective and cooperative group planning.

8. Illustration of Industrial Maladjustment.—The bituminous coal industry illustrates an economic maladjustment which is productive of a serious problem of unemployment, irregular employment, and chronic underemployment. In addition to the problems of casual unemploy-

ment, seasonal unemployment, cyclical unemployment, and technical unemployment, the industry is characterized by strikes on the one hand and by a tremendous overexpansion on the other hand. Although a basic industry, the mining of soft coal has been done with little conscious and cooperative planning in the interests of national economy.

The Bituminous Coal Commission appointed by President Wilson in 1919 reported that . . .

> At the present time America requires less than five hundred million tons of bituminous coal a year, while the capacity of the mines in operation is over seven hundred million tons.

The World War created an overexpansion in the soft-coal fields as in numerous other industries, such as iron and steel. This overexpansion in the bituminous coal industry, however, is far older than the World War. Again, little indication of an improved adjustment has been manifest in the decade following the World War. The fever of overexpansion and the lameness of industrial maladjustment seem to be chronic ailments, from which the coal industry at present shows but slight chance of recovery on its own initiative.

Mr. Hoover indicated the bituminous coal industry as follows:

> Broadly, here is an industry functioning badly from an engineering and, consequently, from an economic and human standpoint. Owing to the intermittency of production, seasonal and local, this industry has been equipped to a peak load of 25 or 30 per cent over the average level. It has been provided with a 25 to 30 per cent larger labor complement than it would require if continuous operation could be brought about.
>
> There lies in this intermittency not only a long train of human misery through intermittent employment, but the economic loss to the community of over 100,000 workers who could be applied to other production, and the cost of coal could be reduced to the consumer.[1]

9. Changes in Methods of Production.—As modern industrial society is dynamic, there are numerous and constant changes in methods of production. This form of economic adjustment is represented by the invention of power machinery and by the introduction of new methods of manufacture, transportation, and communication. This economic progress has its human cost in the form of unemployment.

One of the most conspicuous illustrations of changes in methods of production is that of England over a century ago during the Industrial Revolution. The crude spinning jenny of Hargreaves enabled a single person to spin as much as 20 or 30 people could have done in the same length of time on the old fashioned spinning wheel. Consequently, its immediate effect was to put a number of hand workers out of employ-

[1] Hoover, Herbert C., Inaugural Address before American Institute of Mining and Metallurgical Engineers, Feb. 17, 1920.

ment. The long run effect of the Industrial Revolution, however, was that more workers were engaged in manufacturing in the English factories after these great mechanical inventions than had formerly been employed in their own homes under the domestic system of manufacturing goods by hand.

The process of mechanical invention has been fairly continuous and very rapid during the past century. It has required a tremendous adjustment within the labor market, as may be seen from the following illustrations. Almost every new machine and each improved process have put some group of workers out of employment. Such is the social cost of industrial progress in the arts of production.

The invention of the McKay sewing machine, for illustration, revolutionized the manufacture of shoes. This invention sews the soles of 100 pairs of shoes in an hour and a half, as compared with 100 hours of time spent in the former method of cobbling shoes by hand. Thus, 1 man is able to do the work of 60. The still more recently invented Owens glass-bottle machine can produce 15,000 bottles per day with a total of 4 men, each working on a shift of only 6 hours, whereas a single glass blower could formerly make only 200 bottles in one shift.

It is contended that this unemployment is merely temporary and that the discharged workers will find employment in other fields. The new invention reduces the cost of production and, hence, lowers the price of the article produced. Therefore, it tends to leave more purchasing power in the hands of consumers with which to buy other products. This stimulates a demand for other commodities, and, in turn, creates a demand for more labor in these other fields. Thus, the displaced workers will ultimately find new employment. The process of adjustment may be painful to the group of labor affected, but it is only temporary or local.

The invention of power machinery and the introduction of new processes, however, work a severe hardship on the skilled worker who has spent years in learning his trade and who is now forced to seek a new one. If he is too old or otherwise incapable of making the necessary adjustment, he may suffer a permanent loss of employment or be forced to accept the lower wages of a less remunerative employment. It should be remembered, however, that the greater economic well-being of society in general is of more importance than the special interests of any particular group therein.

The vested interests argument may be applied to labor as well as to capital. It has even been suggested that a displaced worker be compensated by society for the financial loss to him of the introduction of machinery. Although such a suggestion seems extreme, employers will do well to consider the effects of the introduction of a given machine on their workers as well as on their profits sheet.

In the past organized labor has been hostile to the introduction of machinery, but recently it has attempted to face the inevitable and to secure the best possible compromise. Thus, a happy solution was found in the case of the linotype machine. The employers agreed to use for its operation only the former typesetters, provided they would learn to use the new invention. Their skill at hand composition was of some value in the operation of the new linotype machine. Although the immediate effect of its introduction was to force some of the former printers out of employment, the reduced cost of publishing stimulated the demand for printing. The net result was that more men were employed after the invention of this machine than formerly even within the printing industry itself.

10. Changes in the Wants of Consumers.—Styles are set by the classes and imitated by the masses. When a given article becomes too common, it thereby becomes taboo to fashionable society. Vogue rather than reason is the determining motive. Although individual tastes are not eliminated, they are rigidly circumscribed by the dictatorship of what is considered good form.

Fashion is a fickle mistress, for fashions change not only continuously but also suddenly. The numerous economic wants of consumers change like the colors of a chameleon. Thus, lengthy skirts gave way to short skirts and long hair to bobbed hair. The furniture of one period has been supplanted by that of another. Thus, wooden beds gave way to brass beds which were quickly supplanted again by wooden beds. One winter cloth-topped shoes held sway at the expense of leather-topped shoes, but the following winter they were considered old fashioned. Extremely high shoes for winter wear gave way a few years ago to low shoes with woolen hosiery. The red flannels of our grandmothers have succumbed to the dainty lingerie of the modern girl. Woolen material has been supplanted by cotton, cotton by silk, and now the flourishing silk industry is being threatened by rayon.

Changes in fashion are social in character, but they have tremendous economic effects. Inasmuch as production must be carried on in anticipation of demand, rather than in response to demand, sudden and unforeseen changes in the wants of consumers cause misdirected production. Their economic wastes and social costs are tremendous, but the average consumer is unaware of them. In some shops there are unemployed workers and idle capital, while in other establishments overtime and night work are necessary in order to supply the latest whim of the public.

An increased standardization and a greater stability of economic wants would be accompanied by an enormous reduction of waste which the consumer might enjoy in the form of more goods, better goods, and cheaper goods. The employer would benefit by a decrease in the

uncertainties of business and by a reduction of obsolescence of machinery and other equipment. The workers also would enjoy a greater security from the constant menaces of unemployment on the one hand and the sweatshop on the other.

11. Seasonal Occupations.—The seasonal character of unemployment is important in many occupations. Indeed, industry as a whole is seasonal to a considerable degree. The study of Dr. Hart, referred to before, indicated that the average number of unemployed tended to be greatest in January, averaging in this month over a period of years about three and one-third million, and least in October, averaging in this month less than two million. Trade union statistics covering the state of New York from 1904 to 1915 indicated that the average unemployment in March was 75 per cent greater than in September. Similar statistics for Massachusetts from 1908 to 1919 indicated that unemployment in March was 80 per cent greater than that in September.

Mr. Beveridge, a great English economist and the pioneer student of unemployment, carefully studied seasonal unemployment as a very important phase of the general problem of unemployment. He discovered that in the building trades there was 80 per cent more unemployment in the slack month of December than in the busy month of August; in the manufacturing of furnishings three and a half times more unemployment in the slack month of January than in the busy month of April; among machinists about 50 per cent more unemployment in the slack month of December than in the busy month of May; and among printers twice as much unemployment in the slack month of August as during the busy month of November.[1]

Seasonal unemployment is due to alternating conditions of demand and to alternating opportunities for production throughout the year, caused, for the most part, by variations of the climate and weather and, in some part, by social customs such as Christmas giving and Easter sartorial display.

Consumers' wants are subject to regular variations in character, due to changes of season, as well as to irregular variations in character, due to changes of weather. Thus, the clothing and millinery industries have fall and spring seasons, due to changes in the temperature during those seasons. The intervening summer and winter months are slack seasons. Again, the Christmas holidays are always very stimulating to department stores and to other retail mercantile establishments, but there is generally a seasonal slump in the months which follow. Extra help is taken on during the rush season, only to be dismissed afterward.

Numerous shops have attempted to stabilize their business by special sales at reduced prices during the slack months. Such bargain sales

[1] Beveridge, W. H., "Unemployment: A Problem of Industry," p. 29.

also permit them to dispose of the season's goods rather than to assume the expense and hazard of carrying them over until the next season. Some seasonal changes in demand can be eliminated or greatly reduced by thus inducing the consumer to buy in slack seasons and to carry a greater stock of goods in his own home.

The demands for coal and ice are in large part seasonal. Although the coal dealer may induce the individual consumer, by a slight reduction of price, to buy his coal in the summer and to store it in his own home, such a possibility is not open to the dealer in ice. The small consumer of ice must depend even from day to day on his local dealer. Both milk and ice cream are also perishable products, but the demand for the latter is more seasonal than the demand for the former.

The seasonal character of certain industries is due to the effects of alternating weather conditions on production rather than on consumption, for the alternating seasons condition the supply as well as the demand forces. Thus, the production of ice was necessarily a winter industry before natural ice was supplanted by artificial ice. Lumbering still remains chiefly a winter industry, where the logs are sledged down to the mills or rivers. The harvesting of grain and other crops is chiefly an autumn industry in countries within the north temperate zone. The great canneries, which employ thousands of workers, can operate only in the summer and autumn months when the fruits and vegetables ripen. Construction work and the building trades flourish in the spring, summer, and autumn, but they languish in the cold winter months when frost, snow, and sleet prevent outdoor work.

The dovetailing of seasonal industries tends to reduce their disastrous effects on regularity of employment. Thus, the common combination of coal and ice dealers has been beneficial, for the employer can maintain a year round force of workers, most of whom can deliver ice in summer and coal in winter. It is obvious, however, that there are numerous limitations to such a dovetailing of industries. It is peculiarly difficult where the occupations are unrelated or where they call for a considerable degree of skill. Thus, it is difficult for printers to become carpenters or machinists in order to balance the seasonal character of these very different industries. Even if such a mobility of labor could be secured, it would not completely solve the problem. It has just been indicated that the total demand for all workers appears to be greater in some months than in others.

Although the dovetailing of industries, wherever possible, would help greatly to minimize seasonal occupations, little has been done in this respect. Instead of a conscious planning of industries which might take in a portion of the unemployed labor during slack seasons, the present tendency is for each industry to build up its own labor reserve which can be utilized in busy seasons.

12. Business Cycles.—Unemployment due to a general period of business depression must be distinguished from that due to seasonal industries. Here we are face to face with the great economic problem of the business cycle. Without reviewing its various theories and causes let us recall how a period of business prosperity tends to culminate in a crisis, which is succeeded by a period of business depression, followed, in turn, by one of slow recovery. This gradually develops into a period of prosperity, and so on again through the alternating phases of the business cycle, which tends to repeat itself at fairly regular intervals.

The great human tragedy of a period of business depression is that of unemployment. Thousands of idle workers tramp the streets vainly in search of employment. Soup kitchens and bread lines put in their appearances. Moreover, unemployment creates more unemployment which thus accentuates this phase of the business cycle. When large numbers of workers are thrown out of employment, there is a serious loss of wages which means not only misery to the unemployed but also a reduction of purchasing power within the community. This decrease in effective demand accentuates the business depression and creates more unemployment.

These flood tides of unemployment have occurred at intervals about a decade apart, although the business cycle has shown a recent tendency toward shorter and more frequent cycles. Recent illustrations of general depressions, characterized by an enormous increase of unemployment, are those of 1892–1893, 1904–1905, 1913–1914 and 1920–1921. Thus, the depression of 1914 was said to have forced two million workers out of employment with an equal number on part time. The depression of 1921 was apparently twice as bad. In June, 1921, according to official estimates there were four million employees idle and as many more on part time.[1] In 1927–1928 the amount of unemployment again reached several million. Apparently the number of unemployed was greater than that of 1914, but not so great as that of 1921. It would seem, however, that this recent increase in unemployment is technological in character rather than merely cyclical.

13. Industrial Conflicts.—Another source of unemployment is the cessation of production due to industrial disputes which culminate in strikes and lockouts. Although undoubtedly a cause of unemployment, it is easy to exaggerate the amount of unemployment which is due to industrial conflicts.

It is difficult to determine what proportion of unemployment may definitely be ascribed to strikes and lockouts rather than to general industrial conditions. Broad economic factors, such as the general state of the market, play no small part in shaping the policies of both labor and management. Industrial conflicts are avoided by employers

[1] American Labor Legislation *Review*, September, 1921, and March, 1928.

in periods of prosperity but faced more squarely by them in periods of depression. At such a time a strike or lockout may merely eliminate the necessity of a general layoff of the workers. Hence, it is difficult to say to what extent, if any, industrial conflicts staged during periods of industrial depression swell the net amount of unemployment.

The New York Board of Mediation and Arbitration estimated that the number of man-days lost by all wage earners because of strikes and lockouts was less than 1 per cent of the total number of man-days lost from work through all causes. Studies of unemployment among the organized workers of Massachusetts and New York also seemed to agree that only 1 or 2 per cent of the total volume of unemployment might be attributed to strikes.

14. Changes in the Tariff and International Trade.—The tariff has been said by its devotees to create employment. Its enemies have replied that the tariff creates an expansion in a given industry and an excess production in certain lines which help to cause an economic crisis followed by a period of depression and unemployment. The truth is to be found in neither extreme. Unemployment is caused not so much by a tariff or by the absence of a tariff as by the constant changing of the tariff.

Anything which has a disturbing influence on trade and commerce will spoil the careful adjustment necessitated by division of labor, for it will vary the delicate equilibrium which has been built up between the demand for and the supply of labor. It has already been pointed out that modern specialization and exchange are no longer local or even national, but that they are international. Any disturbance of the usual channels of international trade will produce unemployment in some part of the world.

The delicate mechanism of territorial specialization and exchange is as difficult to restore as it is easy to disrupt. The recent World War is a tragic illustration. The financial collapse of Germany meant the loss of important markets for English exports. In the years which followed the great conflict, England struggled with an enormous unemployment problem. Great Britain, as well as other allied nations, became less enthusiastic about the payment of German reparations when it was perceived that unemployment might result from a depression in certain home industries by the payment of reparations in coal and other commodities.

15. The Labor Reserve.—Unemployment is to be regarded as a temporary or local maladjustment in the demand for and the supply of labor which prevents a continuously perfect equilibrium. Even under the most ideal industrial management, there is bound to be a certain amount of unemployment. The result of this chronic problem of unemployment is the existence in industrial society of what is known as the "labor reserve."

The labor reserve consists of those workers whose employment is more or less irregular. It constitutes a great human reservoir of labor on which the industry can draw when necessary. The labor reserve is the embodiment of the problem of casual employment, although it also embraces seasonal and even cyclical unemployment. The labor reserve consists chiefly of those workers whose services are not continuously required, but who may find employment from time to time.

The labor reserve comprises chiefly, but by no means exclusively, the unskilled and the semi-skilled workers. It embraces not only the temporarily unemployed groups, but also the great twilight zones between the unemployed and the unemployable. At any given time the employer selects only the most likely from among the total number of applicants around the factory gates, and those in excess of his immediate needs are thrown back into the great labor reserve.

The smallness of the labor reserve is a good test of the ability of industrial society to use effectively its human resources. It is sometimes large and sometimes small, depending on business prosperity in general and on conditions in particular industries. The size of the labor reserve depends not only on the irregularity of employment within an industry but also on the total number of separate employers.

If the volume of business varies from day to day or from week to week, the number of workers inside and outside the factory gates will tend to equal the total number employed during the busiest period. Such was Beveridge's analysis of the tendency of the labor reserve of any particular industry. He contended that the total number of workers who congregate about a given labor market tends to equal the maximum number that may be able to obtain employment there. The immobility of the workers tends to increase these "stagnant pools of labor," known as "labor reserves," the total number and size of which are further increased by the tendency of each employer to develop his own center of employment rather than one for the whole industry or for the entire locality.

One of the most unfortunate features of our present industrial system is this tendency of each business organization and of each community to build up its own labor reserve. It serves to make the problem of the employer easy by offering him a continuous and adequate labor reserve from which to select his employees. But, from a broad social and economic point of view, such a system is very wasteful of our great human resources, the labor of men.

Foreign labor has been an important contributing factor in this situation, for unskilled immigrants have been used to recruit the labor reserves of various industries. A Federal law now forbids the importation of foreign contract labor, but there has been no consistent national effort to adjust the great tide of foreign labor to the demand for it. The

unskilled immigrant labor group is peculiarly ignorant, immobile, and capable of industrial exploitation. Not only do these foreign workers suffer acutely from unemployment but they often displace, at lower wages, native laborers. Although the permanent effects of immigration on unemployment are controversial, it necessitates a constant process of adjustment in the labor supply which results in some unemployment.

The reduction of the labor reserve can be done only by an improvement of the labor market. Associations of fruit growers have developed bureaus of information, marketing associations, and better shipping facilities to distribute more intelligently and more effectively their perishable material products. Human labor is immaterial, but it is equally perishable and even more valuable. Nevertheless, its marketing is frequently less efficient than that of many commodities. At any given time there may be an excessive supply of labor of a given type in one locality and an excessive demand for it, simultaneously, somewhere else.

16. Migratory Labor.—Migratory labor, as well as the labor reserve, is a serious problem of our modern economic organization. Thus, the United States Commission on Industrial Relations estimated that there were several millions of American workers who were not definitely attached to any specific industry nor to any particular locality. Moreover, it was felt that the number of migratory laborers was increasing, not only absolutely but also relatively.

The chief cause of migratory labor is to be found in the seasonal character of numerous industries. Thus, the workers released from agricultural pursuits in the autumn flock from the country into the industrial towns and cities. Again, the great army of men who harvest our wheat crop are forced to move from the south to the north as the crop ripens. In the winter months they go still farther north into the forests around the Great Lakes where they engage in lumbering. In the spring months a number of these casual workers find employment in construction work.

One of the most interesting developments in the field of migratory labor is the passage of Italian labor to and from Argentina. As the climatic seasons are reversed in the north and south temperate zones, the crop ripens in opposite months of the year and the same group of workers can harvest both in one year.

The effects of migratory labor on the individual are somewhat similar to those of irregular employment. Indeed, migratory labor is apt to be very irregularly employed. It is also easy to migrate without definite employment and eventually to yield to the temptation of becoming a tramp or a member of the floating leisure class. Seasonal trades invite shiftlessness and a lack of responsibility. The worker can hardly transport his family with him as he goes from job to job. It is impossible

to maintain a wholesome family life, but it is easy to sink into the group of petty criminals. The social effects of the economic problem of migratory labor are most unfortunate.

17. Labor Turnover.—Although there may be continuity of employment within a given industry, locality or period of time, there may be no such continuity of personnel among the streams of workers who are employed. Although the wheels of industry may not stop, hundreds of individuals may quit or be discharged, only to be replaced by other workers from other places of employment. This represents the problem of labor turnover, as distinct from the problem of unemployment to which it is closely related. It is the opposite of continuity of employment of a given group of workers within a given business organization.

Labor turnover may be any one of three general types: a general layoff of all workers, a discharge of particular individuals, and the voluntary quitting of certain employees. Although it is difficult to classify the nature of a separation of an individual from his job, most studies of the problem seem to indicate that the third type of labor turnover is greater than the other two types combined. The relative proportion of these different types of labor turnover varies in periods of depression and periods of prosperity. During periods of depression and unemployment the relative portion of layoffs is greater, but in periods of prosperity the relative proportion of voluntary separations is greater.

18. Amount of Labor Turnover.—The amount of labor turnover is difficult to measure. It would seem, however, that a labor turnover of 300 per cent has been common in many industries even in normal times. This means that on an average 3 men have been hired each year for every job within the plant. Thus, from October, 1912, to October, 1913, in the year before it introduced its employment department, the Ford Motor Company hired approximately 54,000 men in order to maintain an average working force of 13,000. Such a labor turnover of slightly over 400 per cent has not been unusual in many occupations. During the World War it was frequently much greater.

One of the early students of the problem of labor turnover, discovered that 42,000 men were hired in 1913 by a number of factories to maintain an average force of 40,600 workers. This represents a yearly turnover of 100 per cent.[1]

In 1918, twenty-two factories were studied by the United States Bureau of Labor Statistics. Of this group it was found that four factories had a labor turnover of from 50 to 100 per cent, three factories had a labor turnover of from 100 to 150 per cent, two factories had a labor turnover of from 150 to 200 per cent, five factories had a labor turnover of from 200 to 250 per cent, three factories had a labor turnover of from

[1] ALEXANDER, M. W., "Hiring and Firing," *Annals* of the American Academy of Political and Social Science, vol. 67, 1916.

250 to 300 per cent, and five factories had a labor turnover of from 300 to 400 per cent.[1] Thus the median factory rate of labor turnover was from 200 to 250 per cent.

19. Causes of Labor Turnover.—The causes of labor turnover, like those of unemployment, may be approached from either the individual or the environmental aspect. Among the personal causes of excessive labor turnover are such factors as illness, a migratory tendency, or an uncongenial disposition. Within the environment are such economic and social factors as contribute to the general problem of unemployment.

One great cause of an excessive labor turnover is the absence of any personnel policy or the presence of other deficiencies in industrial management. Poor methods of hiring and placing workers, the autocratic management of industry, the absence of financial or non-financial incentives to increased production, the presence of unfavorable working conditions, the absence of recreational facilities and the lack of vocational education are important direct or contributory causes of excessive labor turnover.

It would seem that skill and sex are also important factors in the problem. The rate of labor turnover is much higher for unskilled workers than for skilled workers. Perhaps the superior organization of skilled workers makes it possible for them to shape somewhat better their conditions of work. The common laborer may be discharged with impunity, for his place is easily filled. Again, he can express his dissatisfaction with his job only by quitting work, after which he must blindly look around for other employment. It would also seem that labor turnover is less among women than among men, in spite of the common assumption that women are merely loaned to industry.

20. Effects of Excessive Labor Turnover.—A certain mobility of labor is necessary to permit the force of competition among employers to smooth out wage irregularities in different industries and to improve the general working conditions. Some changing of occupations is also desirable in the case of the men who are seeking to improve their position and to rise from one labor group into another. On the other hand, there is much labor turnover which is a mere change in personnel or a shifting of jobs without accomplishing these objectives.

The effects of excessive "hiring and firing" on both the individual worker and on industry in general are similar to those of unemployment. Again, the laborer may lose as many working days because of a frequent change of jobs as because of a shutting down of the plant.

Our previous discussion of the effects of unemployment makes unnecessary any lengthy treatment of the effects of excessive labor turnover. It produces industrial inefficiency, which, in turn, causes a still greater labor turnover. The frequent changing of jobs with intervals

[1] *Monthly Labor Review*, October, 1918.

of idleness between them is demoralizing to the individual worker, because it destroys habits of thrift and steady industry.

Excessive "hiring and firing" is also costly to industry. A permanency of personnel is a vital factor in efficient production. The cost of breaking in a new employee varies greatly in different industries, but it has been estimated at from $25 to $100 for ordinary semi-skilled labor.[1] Although impossible to measure exactly, it is undoubtedly true that excessive labor turnover is a considerable tax on any industry in which it flourishes. Thus, the expense of the 400 per cent labor turnover within the Ford Motor Company for the year studied was estimated at about $2,000,000. The total economic loss for the country as a whole from excessive labor turnover must be enormous.

21. Reduction of Labor Turnover.—The reduction of labor turnover like the reduction of unemployment is a very important problem of industrial management. Social unrest, as expressed in the passive form of labor turnover, is as important as that expressed in the active form of strikes and industrial conflict. Both may be reduced by the establishment of personnel departments, by a more enlightened policy of management, and by such programs as pension systems, welfare work, employee representation, profit sharing, and employee ownership of stock. Such a program of the liberal employer will be discussed in Part V.

Since the period of the World War there has been a great development of such experimental programs of management. There has also been a considerable reduction of labor turnover, if not of unemployment. It seems likely that there is a causal relationship between the new and more enlightened program of management and the reduction of labor turnover.

This recent reduction of labor turnover, however, is due to the changed economic conditions, as well as to a more conciliatory attitude of management. Good jobs have not been so easy to obtain in the period of industrial reorganization which followed the World War. It has just been demonstrated that for the past few years the volume of employment has not kept pace with that of production. Nevertheless, considerable progress has been made toward the stabilization of employment and toward the reduction of labor turnover.

Professor Schlichter describes the recent reduction of labor turnover as follows:

> Prior to the War, the turnover rate in manufacturing averaged in good years and bad not far from 100 per cent. In 1926, an active year, the figures of the Metropolitan Life Insurance Company show a rate of only 47 per cent. Of special significance has been the drop in the layoff rate. The Bureau of Labor Statistics, collecting data for the period 1910–1915 and for the year ending June 30, 1918,

[1] ALEXANDER, M. W., "Hiring and Firing," *Annals* of American Academy of Political and Social Science, vol. 67, p. 135, 1916.

found an average layoff rate of 13 per cent in a group of 261 plants. For the period 1911–1915, I found a layoff rate of 35 per cent among 78 plants employing 155,000 workers. The returns of the Metropolitan Life Insurance Company, however, show a rate of 6.0 per cent in 1926 and 6.5 per cent in 1927. The layoff rate is a rough measure of the stabilization of employment. Stabilized employment, however, transforms the entire attitude of the wage earner toward his job. The job ceases to be merely a temporary position which he is bound to lose and becomes, in a sense, a highly valuable piece of property which he can keep for the rest of his life *provided he meets the management's standard of efficiency*. The fact that he now has something worth keeping produces radical changes in his willingness to be efficient.[1]

22. Reduction of Unemployment by Private Enterprise.—Philanthropy affords merely temporary relief for the unemployed, and charity is a poor substitute for the right to a job. Although relief measures of a wholesome sort should be utilized during an unemployment crisis, an effort must be made to reduce the volume of both acute and chronic unemployment. Like a scientific study of the elimination of malaria or typhoid fever, a scientific study of unemployment should begin with a causal analysis. Our brief survey of some of the chief economic causes of unemployment suggests measures for their elimination.

The reduction of sudden changes of fashion would eliminate some of the irregularities in industry which result in overtime on the one hand and unemployment on the other. Popular education of both men and women on this subject would do considerable good. Anything which helps to stabilize and to standardize demand helps to reduce unemployment.

In general, the demand for necessities is more stable than the demand for luxuries. Hence, the old slogan of "necessities for all before luxuries for a few" has a corollary on unemployment. Economic production in accordance with this social maxim, however, will remain only an ideal so long as glaring inequalities in income exist. Effective demand, it will be remembered, is composed not only of desire but also of purchasing power.

The growth of large business combinations and the decline of fierce competition tend to reduce fluctuations in the demand for labor. Monopoly price has at least the advantage of being relatively more stable than a competitive price. Moreover, with the expansion of the business unit the opportunities to dovetail different industries are increased.

The seasonal aspect of many industries is impossible to eliminate, as it is determined not only by our economy but also by the physiography and weather influences. Nevertheless, much can be done toward the dovetailing of seasonal occupations and toward increasing the mobility of labor. Although such remedies may reduce unemployment, they may intensify the migratory character of this labor, as illustrated by farming

[1] Schlichter, S. H., "The Secret of High Wages," *The New Republic*, p. 185, Mar. 28, 1928.

in summer and autumn, lumbering in winter, and construction work in the spring.

Irregularity of employment in many industries can be reduced by manufacturing for stock, that is, in anticipation of demand. Such a procedure involves a hazard on the part of the producer, because it intensifies the risk due to possible changes in the wants of consumers.

It is safer for the employer to pass on a portion of this risk to his employees in the form of overtime in rush seasons and unemployment during slack seasons. Much could be done, however, by a mutual agreement on the part of manufacturers on a standardization of styles sufficiently far in advance. In the case of staple articles, however, it is possible to manufacture for stock far more than is done at present. By offering special discounts to preseason purchasers, the risks and financial outlays of dealers might be reduced.

The reduction of unemployment due to a general business depression brings us face to face with the problem of the business cycle. This, in turn, involves problems of money, credit, banking, and price levels. Without reviewing any of these, it may be said that any economic reforms, such as the stabilized dollar, for illustration, which tend to eliminate or to reduce business depressions tend, likewise, to reduce unemployment.

The invention of machinery and other technological changes will probably continue in the future as they have in the past. Indeed, economic progress is apt to be accelerated. A dynamic society will always face a constant problem of adjustment. It is desirable, however, that future technological advances be accompanied by an increased social control over industry. It is also hoped that these adjustments will be conscious adaptations in the light of ethical considerations with social welfare rather than private profits as the final goal. The scrapping of human machinery cannot be viewed with the same complacency in the future as it has been in the past.

It is costly to permit industry to function without any broad and comprehensive planning. The World War revealed what a national economic program might do in the matter of improved labor markets and the reduction of human and material wastes. Socialists and other critics of modern capitalism point to the waste and planlessness of economic production on individual initiative and under the lure of private profits. The Russian Gosplan represents an attempt to organize the entire economic system of that country in order to minimize waste and to increase efficiency. Capitalistic countries likewise will do well to promote national bureaus of economics, committees of engineers, and industrial councils to consider the reduction of unemployment and other forms of economic waste by improved methods of industrial planning.

An effective personnel department, as well as improved methods of industrial management and better economic planning, can do much to

reduce unemployment. As will be seen in Chap. XIII, the scientific management of a generation ago is being suplemented by the new science of personnel administration.

Educational as well as economic reforms are also necessary. It is costly to have children and young people in blind-alley jobs rather than in school. Although vocational education has captured our public school system, a number of educators are insisting on a general industrial or commercial education rather than on specialized trade schools.

It may be that we have gone too far in the matter of extreme specialization. There is relatively as great a dearth of the general all-round mechanic as of the old bedside physician. It is hoped that the education of tomorrow, both within the schools and within industry, will increase not only the skill but also the adaptability and the mobility of our future wage earners. This will enable them to shift more readily from one occupation to another under the stress of unemployment. Industrial opportunity lies with the adaptable or the "double-barrelled man." It has been suggested that an individual learn two allied trades instead of one specialized occupation.

23. Unemployment Insurance within Industry.—One of the most hopeful signs of a new attitude toward the problem of unemployment and a very promising indication of what can be done toward its amelioration by private enterprise is the policy of unemployment insurance within industry itself. This frequently takes the form of guaranteeing to the worker a minimum number of days' work throughout the year. Some firms have created unemployment reserves to provide for the payment of wages or benefits during such an emergency.

Considerable progress in this respect has been made by some of the clothing industries which are sorely vexed by the problem of seasonal unemployment. Trade agreements stipulating a given number of days' employment have been made by some highly unionized needle workers with certain large manufacturers of clothing. The result is that these factories making ready-to-wear garments are forced to manufacture for stock to a greater extent than formerly. The Amalgamated Clothing Workers of Chicago and Rochester have an unemployment insurance fund contributed to jointly by employer and employees.

The stabilization of unemployment in the clothing industry seems dependent on the strength of organized labor in the needle trades and on the policy of manufacturing clothing in large factories rather than in the homes of the workers. However, a large amount of clothing is still manufactured under the contract and subcontract system which is conducive to sweating. Sweatshops, it will be remembered, are characterized not only by irregularity of employment, but also by low wages, unequal wages, long hours, and miserable working conditions.

William Proctor of the soap manufacturing company of Proctor and Gamble took a great forward step when he guaranteed to his workers 48 weeks of employment throughout the year. Such a policy is not difficult to carry out in the manufacture of such a great staple as soap. However, the Dennison Manufacturing Company, makers of paper boxes, stationery supplies, holiday cards, tags, and various paper goods has also been able to carry out a similar program in an even more difficult industry, characterized by irregular, seasonal, and changing demands. This firm maintains the policy of paying to those workers who are temporarily laid off a large share of their regular wages, which comes out of an unemployment fund built up out of a certain accumulated share of the profits of the business. The very efficient, as well as humane, management of this firm has succeeded in stabilizing production and thus reducing unemployment in numerous ways.

Certain firms have attempted to ameliorate the hardships of unemployment by the payment of what is known as a "dismissal wage." If the employee is discharged through no fault of his own, but merely because of the lack of work, he receives an unemployment bonus at the time of his enforced separation from the services of his employer. In order to pay adequate dismissal wages, a business organization must seek to regularize employment and also to provide an unemployment reserve fund. The strain of unemployment generally comes in a period of business depression, when the firm is faced by a serious loss of profits and by the continuation of heavy fixed charges on idle equipment.

24. Employment Agencies.—Employment agencies cannot reduce unemployment by creating work, but they can aid materially by seeking to bring together the jobless man and the manless job. They can reduce the aimless wandering from place to place of men out of work. Although they cannot make work, employment agencies can help to adjust the supply of labor to the demand for it. It has been said that the organization of the labor market has been even more inefficient than the organization of produce markets. Employment agencies represent an attempt toward an intelligent organization of the labor market.

Employment agencies are of two general types, public and private. Public agencies, in turn, may be classified as Federal, state, or local labor exchanges.

Private employment agencies are of various types. There are the ordinary fee-charging agencies which are conducted for profit like any other business. There are also philanthropic associations which do not charge and which are not influenced by the profits motive. In the last place, there are employment agencies conducted by associations of employers and agencies conducted by labor organizations.

The last two groups of agencies are somewhat partisan and are apt to be viewed with suspicion by the opposite sides. This feeling hinders

their effectiveness as employment agencies. Private non-profit-making employment agencies are generally very limited in their sphere of usefulness and do not reach the masses of the unemployed. As many of them are under the direction of charitable societies, employer and employee are prone to feel that they are trying to find jobs for the less efficient workers of the dependent groups.

Employment agencies in this country have been left largely to individual initiative rather than undertaken as a legitimate public function. There are now several thousand private profit-making employment agencies in the United States. Although probably better than none at all, they are far from satisfactory. Although some maintain fairly high ethical standards and perform useful social functions, the reverse is the case with others. Although there are many reputable and satisfactory private agencies, the majority of them are dominated by the search for profits rather than by the desire to serve a great economic need.

Fraudulent and extortionate practices have been only too common, as all studies of private employment agencies indicate. Vacancies are sometimes encouraged as a potential source of fees. A misrepresentation of terms and a splitting of fees with plant officials have been frequent. As employers themselves frequently order men from several agencies at the same time, the result is the sending to a given place of crowds of workers far in excess of the local demand. It was the conclusion of the Commission on Industrial Relations that the private employment agency "business as a whole reeks with fraud, extortion, and flagrant abuses of every kind."

The majority of states now have some sort of legislation on the subject of private employment bureaus, the worst practices of which have generally been eliminated. State statutes on this subject generally forbid the deliberate misrepresentation of facts, the falsifying of records, the sending of women into immoral resorts, the splitting of fees with employers or foremen, the sending of applicants to fictitious jobs or, indeed, to any employment without a written order from the prospective employer, the charging of fees without the rendering of employment services, and numerous other past practices of a questionable sort.

In 1914, the state of Washington passed by popular vote a law to eliminate the private fee-charging employment agency. This law, however, was declared unconstitutional by the Supreme Court in 1917 as violation of the guarantee of freedom of contract. Of course, this decision did not destroy the power of a state or the Federal government to regulate the practices of private employment agencies. Nor did it impair the right of a state or any administrative unit thereof from developing its own free public employment bureaus in competition with existing private agencies. It merely forbade an exclusive state employment agency and the complete elimination of private agencies.

25. Public Labor Exchanges.—The first free state employment bureau in America was established by the state of Ohio in 1890. A few states followed, but the early movement met with little success. Of recent years, there has been considerable progress toward public employment bureaus as a legitimate state function. Before the World War about half the states maintained public employment bureaus, some of which were fairly successful. Thus, the State Bureau of Employment established in New York in 1915 has had a very satisfactory record. The Reconstruction Program of the American Federation of Labor in 1919 demanded the development of public employment bureaus and their substitution for the private profit-making employment agencies.

A number of American cities also have experimented with free public employment bureaus, but they were rarely effective at first. Insufficient appropriations, political influences, and the opposition of private interests militated against their success. Considerable progress, however, has been made and a number of cities now have public employment bureaus many of which cooperate very effectively with those of other cities and with the state bureaus of employment.

The Federal government, however, has had the greatest success in this field. The movement was begun in 1907 with an attempt on the part of the Bureau of Immigration to place some of our immigrants upon farms and out of the crowded cities. But for the next 10 years comparatively little was accomplished. In 1915, however, this service was extended to all classes of labor and to all occupations.

The World War showed keenly the necessity for the conservation and mobilization of our labor resources. In 1918, the Federal Secretary of Labor reorganized the United States Employment Service. An attempt was made to coordinate the state, county, and municipal bureaus under this central Federal agency. Advisory boards of employees, employers, and public officials were created. Federation but not centralization was sought through this national organization. The advantages of consolidation were desired without a destruction of local organizations. Considerable autonomy was regarded as highly desirable in the attempt to cope with the problems of unemployment.

The success of the United States Employment Service measured by the number of placements was immediate. Within the first year of its existence these totaled several millions. All kinds of workers were included from common unskilled labor to the technical expert.

It was hoped to continue this Federal employment service after the end of the war and a thousand branch offices with a personnel of several thousand were planned for the year 1919–1920. Congress failed to grant an adequate appropriation, however, and the size and the activities of this Federal service were greatly reduced. This curtailment was felt very severely in the critical unemployment period of 1920–1922. The

President's Conference on Unemployment in 1921 recommended that the Federal employment service again be extended.

The first European nation to develop a coordinated national system of labor exchanges was Great Britain. The Labor Exchanges Act of 1909 authorized the Board of Trade to do this. Administrative divisions were created and a labor exchange was located in every important town. Close communication was maintained with the central office in London. In 1917 there was created a Ministry of Labor which assumed charge of the system.

The local offices function largely by means of advisory committees consisting of equal representatives of employers, employees, and the general public. The administrative machinery is correlated with that of unemployment insurance. Transportation charges are sometimes advanced to workers in order to get them to places of employment.

Steps in the direction of public employment bureaus have also been taken by Germany, Denmark, and other European countries. Indeed, the movement has progressed further in Europe than in the United States.

26. Public Employment.—The alleviation of the unemployed by utilizing them on public works is an old economic device. It was tried shortly after the Revolution of 1848 in France, which experiment was widely heralded as an application of the public work shops idea of the socialist, Louis Blanc. As a matter of fact, it was nothing more than an attempt to meet an unemployment crisis by occupying the men at public construction work.

Public employment during periods of industrial depression not only gives jobs to those out of work, but it also has a stimulating influence on other industries. Thus, to employ men on the construction of roads and buildings is also to create a demand for stone, cement, and structural steel. Its indirect influence on unemployment is as great as its direct influence. Society is also the gainer, not only because of the lessened demands on charity but also because of the economic savings resulting from having the work done in periods of low prices.

Governments can no more create work than can private individuals. The suggestion of public employment is not to be confused with the common economic fallacy of making work. Unemployment does not result from the absence of potential demand but from a maladjustment in the supply and demand forces of labor. Public employment merely means that employment on public works be so regulated that it supplements rather than competes with the demands of private business. In other words, public work is to be pushed when business is slack and it is to be deferred, as much as possible, when business is brisk. It assumes a general and long-run plan of socially desirable production for public consumption and not merely the making of work by employing men at unnecessary tasks and paying them out of the taxpayers' money.

Most governments unfortunately follow the example of private business. They spend and expand in periods of prosperity and retrench in periods of depression when taxpayers feel poor. The result is an accentuation of the business cycle instead of a modification of it.

Another mistake of the past has been the failure to plan ahead for municipal, state, and Federal projects. If the comprehensive future planning of public work were the case, the unemployed might be put to work in a more constructive and systematic fashion than at present. As a rule, American cities have not had their future development planned in advance. Like Topsy they have just grown. It is not surprising, therefore, that the employment on public improvements of those out of work has not been very efficiently done, although it has alleviated temporary distress.

The enormous amount of public improvements which take place yearly can be seen by a glance at our Federal and state budgets or by totalling the recent bond issues of American cities. Although a certain proportion of these public improvements is needed immediately, a large number of them could be deferred to the near future when an economic depression may be in existence.

During the panic of 1908, several American cities used public improvement work as a means of alleviating unemployment. The same year the Socialist party wrote this principle into its party platform. In 1909, the English Parliament passed a development bill with this object in mind. An Idaho law of 1915 required county commissioners to provide emergency employment on public highways or elsewhere. In 1921, the state of California passed a law which provided for the extension of the public works of the state during periods of extraordinary unemployment caused by temporary industrial depressions. A similar law was enacted by the state of Wisconsin in 1923. At the present time (1929) there is a bill before the Federal Congress which proposes to stabilize employment by speeding the program of public work in slack times rather than spreading it out evenly over a period of years.

The British Labor Party went on record in 1918 in the famous report of its Committee on Reconstruction as follows:

> It is the duty of the Government to adopt a policy of deliberately and systematically preventing the occurrence of unemployment, instead of (as heretofore) letting unemployment occur and then seeking vainly and expensively to relieve the unemployed. It is now known that the Government can, if it chooses, arrange the Public Works and the orders of the National Departments and Local Authorities in such a way as to maintain the aggregate demand for labor in the whole Kingdom (including that of capitalist employers) approximately at a uniform level from year to year; and it is, therefore, a primary obligation of the Government to prevent any considerable or widespread fluctuation in the total numbers employed in times of good or bad trade.

27. Unemployment Insurance.—Governmental efforts at the reduction of unemployment and provision for those out of work include not only public labor exchanges and public employment but also a program of unemployment insurance. This form of social insurance, which was not treated in the last chapter, has been purposely deferred until after a consideration of the general nature and causes of unemployment.

Unemployment insurance is perhaps one of the most debatable forms of social insurance. It is one of the most difficult to administer because of the ease of simulating unemployment. It is difficult to feign an industrial accident, old age, or even sickness, but it is not so difficult to pretend to be an industrious workman out of a job because of circumstances beyond one's own control.

It is further contended that unemployment insurance will increase rather than decrease the amount of unemployment. If men are paid only when at work, they will shun idleness, but if they are paid when out of work, they will be somewhat relieved of the necessity of looking for another job. Hence, many of them will remain in idleness. Bitter opponents of unemployment insurance have stigmatized it as a "dole system" and as "Cæsar's bread," that is, as analogous to the free distribution of grain to Roman citizens which encouraged the indolence and dissipation of the proletariat of that ancient metropolis.

The friends of unemployment insurance reply that the amount which is paid to the worker who is unemployed is less than his regular wage, and that it is not sufficient to relieve him of the necessity of looking for work. Moreover, unemployment insurance should be carefully correlated with a system of public labor exchanges. Those who are receiving unemployment insurance are listed at the public labor exchange and are offered work when it can be found. Refusal to accept such work means the loss of unemployment insurance. Finally, unemployment insurance cannot be regarded as a dole, charity, or even as a pension system, if the employee, when at work, pays a premium each week out of his wages for unemployment insurance.

The objects of unemployment insurance, like those of any insurance program, are twofold—compensation and prevention. It will be remembered that unemployment in its strict economic sense refers to the enforced idleness on the part of the worker due to objective causes in the industrial system. Consequently, unemployment insurance attempts to alleviate the sufferings of the worker due to circumstances beyond his control. To a certain extent, any scheme of unemployment benefits, whether unemployment insurance or not, performs this object. But scientific unemployment insurance tends to reduce unemployment, as well as to compensate the unemployed. It lessens the total volume of unemployment in the same way that workmen's compensation laws tend to reduce the volume of industrial accidents. This second aim of

unemployment insurance, however, will be accomplished only if the system is carefully administered. If improperly administered, it fails in this important objective. Hence, it will increase rather than decrease unemployment.

Scientific unemployment insurance must be carefully distinguished from a dole system. The latter consists of a flat contribution of funds to individuals out of work. The former assumes that the volume of unemployment in the various trades has been carefully studied and that the relative risks of unemployment have been mathematically computed. Hence, unemployment, like industrial accidents, becomes an insurable risk. The premium, which is paid by employer and employee in any occupation, depends not only on the wage received or the total wages paid but also on the risk of unemployment in that particular occupation. Hence, there will be an incentive to employers to reduce slack and busy seasons and to spread the volume of employment as evenly as possible throughout the year.

If no attempt were made to assess premiums in proportion to the dangers of the various occupations, workmen's compensation laws would not have succeeded in reducing the volume of industrial accidents. So-called "unemployment insurance" has sometimes been operated at an equal cost to all employers and as a drain on the public funds rather than by putting its financial burden upon the backs of the irregular occupations. Such unemployment relief is hardly unemployment insurance, for there can be no scientific unemployment insurance without an actuarial basis.

28. Governmental Experiments in Unemployment Insurance.— Although no nation had attempted unemployment insurance before the passage of the British National Insurance Act of 1911, several European cities had done so. Perhaps the most famous was the plan of the Belgian city of Ghent, commonly referred to as the "Ghent System." The most significant feature of this plan was that it was administered by the local trade unions. Indeed, this form of public unemployment insurance was little more than a municipal subsidy to the exisiting trade union unemployment dues and benefits. This municipal contribution was justified on the ground that it relieved the drain on local charities and avoided their demoralizing effects on individual character. The administration of this unemployment insurance by the local unions, which contributed substantially to the fund, lessened its abuses by their individual members.

The British government is the only one which has had any lengthy experience with national unemployment insurance. In 1911, this type of social insurance, as well as sickness insurance, was added to the existing workmen's compensation laws and old-age pensions. The National Insurance Act of 1911 provided for a system of unemployment insurance

in certain trades and for approximately two million wage earners. It was correlated with the previously established public labor exchanges.

The administration of this unemployment insurance was somewhat similar to that of the sickness insurance established at the same time. The employer was required to see that every worker included in the act possessed an unemployment card. Each week he affixed a 5-penny stamp to his card. These stamps were purchased from the post office and half the costs were borne by the employer and the other half deducted from the wages of the workers. Benefits of 7 shillings a week for a maximum of 15 weeks were paid those workers who could not obtain work from the public employment offices. It was hoped that public unemployment insurance would stimulate rather than eliminate unemployment benefits on the part of trade unions.

The National Insurance Act of 1911 has been subsequently amended a number of times. In the years which followed the World War, the disturbance of international trade and the cessation of war industries created one of the most serious unemployment problems in the history of Great Britain. Consequently, the original provisions of the first unemployment insurance act were changed to meet the existing emergency. A new act was passed in 1920 and amended in 1921.

Under the present British system of unemployment insurance are now included practically all manual workers and non-manual workers whose earnings do not exceed 250 pounds a year. These approximate 12,000,000 workers, of whom over 3,000,000 are women. The joint contributions of employer and employee now amount to slightly over 1 shilling a week in the case of the adult male workers, and slightly less than 1 shilling a week in the case of women workers. The benefits are 20 shillings a week for men and 15 shillings a week for women. The time limit has been increased to 26 weeks within a given year with the possibility of still further extension.

It has been necessary for the British government heavily to subsidize its unemployment insurance. Appropriations from the public treasury increased to one-fourth of the joint contributions of the employers and employees. Moreover, an amendment of 1922 provided that if the funds were insufficient to meet the necessary unemployment benefits, they might be increased still further by additional subsidies from the government.

The British unemployment system is under considerable criticism at home and abroad. The labor leaders contend that its benefits are inadequate and seek still further increases. On the other hand, manufacturers contend that the differential between unemployment benefits and regular wages is not sufficient to induce men to work. They feel that the present law increases rather than decreases the amount of unemployment.

The chief difficulty of the British system seems to lie in the fact that little distinction is drawn among various occupations and that there is little attempt to base the unemployment premiums on actual unemployment risks. The burden of unemployment insurance has not been placed on the irregular trades. Partly because of this fact and partly because of the large drain on the public treasury, the present system has been said to represent a dole system rather than scientific unemployment insurance.

The present character of unemployment insurance in Great Britain must be explained in terms of a post-war industrial crisis. Unemployment figures were in the millions and there was serious fear of a social revolution. Something had to be done immediately for the enormous number of individuals out of work. Consequently, the coverage of the British unemployment system was suddenly extended from two or three million to ten or twelve million.

In spite of some mistakes in policy and errors in administration, the British system of unemployment insurance did not break down under this terrific strain. An enormous amount of human suffering was prevented and the workers' standards of living were maintained. But the financial cost, especially to the British manufacturer, taxpayer, and general consumer, has been enormous. Many students of the present system of unemployment insurance in Great Britain feel that it is essentially an emergency measure. If it is to continue indefinitely, serious adjustments must be made.

The British experiment in unemployment insurance stood almost alone before the World War, but between 1920 and 1927 seven countries adopted unemployment insurance schemes.[1] At the present time (1928) unemployment insurance is an accomplished fact in most advanced countries of Europe. In addition to Great Britain and Italy, unemployment insurance has been established in Austria, Poland, and Russia. France has made a beginning, and in the Scandinavian countries there are voluntary systems which are very comprehensive.

Within the United States, however, there has been little tendency to imitate the British experiment in unemployment insurance. Nevertheless, there has been some agitation in this country in favor of scientific unemployment insurance. On several occasions an unemployment insurance bill has been introduced in the legislature of Wisconsin, but to date no state has passed a law providing general and compulsory unemployment insurance.

29. Summary.—Unemployment is enforced idleness on the part of the worker due to no fault of his own but to objective causes in the economic environment. The unemployed are to be distinguished from

[1] Austria, 1920; Irish Free State, 1920; Queensland, Australia, 1922; Russia, 1922; Italy, 1923; Germany, 1924; Poland, 1924.

the unemployable. Irregular employment and underemployment are special phases of the general unemployment problem. The various types of unemployment have been classified as casual, seasonal, cyclical, and technological unemployment.

Unemployment is a chronic as well as an acute problem of industry. Although varying in intensity from place to place and from time to time, there seems to be a persistent and continuous problem of unemployment which never entirely disappears. Moreover, in spite of cyclical fluctuations there seems to have been for the past decade a secular trend of the volume of production to outrun the volume of employment.

Although unemployment is costly to employers and to society in general, its chief burden falls on labor. These baneful effects of unemployment on the worker are both material and psychological.

Unemployment is due primarily to a lack of perfect adjustment in the demand for and in the supply of labor. This arises from the complexity of modern industrial society which is characterized by extreme specialization, the use of machinery and capitalistic or roundabout production. Specific causes of unemployment are changes in methods of production, changes in the wants of consumers, seasonal occupations, the business cycle, industrial conflicts, and changes in the tariff and international trade.

The labor reserve is a human reservoir from which industry draws its workers whenever necessary. Unfortunately each industry, locality, or business organization has tended to build up its own labor reserve. Again, modern industrial organization is characterized not only by a large body of irregularly employed workers but also by a great army of migratory labor. The seasonal character of numerous occupations is the chief cause of migratory labor.

Labor turnover is the opposite of continuity of employment within a given business organization of a given group of workers. Labor turnover is due to a general layoff of all workers, a discharge of particular workers, or a voluntary quitting of individual workers. An excessive labor turnover is costly to industry and demoralizing to the workers.

The alleviation of unemployment by philanthropy is a poor substitute for the right to a job. A scientific rather than an emotional approach to the problem consists of an analysis of the causes of unemployment and their removal so far as possible.

There are many ways by which unemployment can be reduced by private enterprise. The greater standardization of goods and the increased stabilization of demand will help materially. Manufacturing for stock and in anticipation of demand will naturally follow. Again, the dovetailing of seasonal industries, wherever possible, will help still further to reduce unemployment. In brief, the scientific management of industry and the more intelligent planning of our productive process

represent the chief methods of approach. The development of personnel departments and of vocational education will also help to decrease the volume of unemployment and labor turnover.

There are several ways by which the state may reduce unemployment and care for the unemployed. In the first place, public labor exchanges help to bring together the manless job and the jobless man. In the second place, the better distribution of public work will help to reduce unemployment. This should be curtailed in periods of prosperity and increased in periods of depression rather than undertaken uniformly throughout all phases of the business cycle. In the third place, there is the possibility of unemployment insurance.

Unemployment insurance is neither a pension system nor a dole, if it is contributory rather than gratuitous. Compulsory in character and extensive in its coverage, unemployment insurance is always supervised by the government. Sometimes it is administered and subsidized by the state. Scientific unemployment insurance is on an actuarial basis, that is, the rate of premium is proportionate to the risk of unemployment. In this way the burden is placed on the backs of the irregular trades. Great Britain has had a longer and more extensive experience with unemployment insurance than any other important nation.

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Questions for Discussion

1. Define unemployment.
2. Differentiate between the unemployed and the unemployable.
3. Explain what is meant by the incidence of unemployment.
4. Differentiate between unemployment as an acute problem and unemployment as a chronic problem of industry.
5. Outline the social costs of unemployment.
6. Outline causes of unemployment in the physical, social, and political environments.
7. Explain unemployment as a maladjustment in the demand for and the supply of labor.
8. Outline concrete causes of unemployment in our economic organization.
9. Suggest remedies in each case.
10. What is a labor reserve and how may it be decreased?
11. Show reasons for the existence of migratory labor and the dangers of this situation.
12. Discuss public improvements as a scientific relief measure for the problem of unemployment.
13. What are some advantages and disadvantages of public employment bureaus?
14. What do you consider the essentials of scientific unemployment insurance?
15. Do you regard the experience of Great Britain as successful? Why, or why not?

Topics for Investigation

1. The exhaustion of free land and the problem of unemployment in America.
2. Unemployment and the business cycle.

3. The dovetailing of seasonal industries.
4. The machine and the problem of unemployment.
5. Unemployment and changing fashions.
6. The reduction of the labor reserve for unskilled labor.
7. Public employment bureaus in America.
8. Public employment bureaus in Europe.
9. Unemployment and the demands on charity.
10. Public workshops in France during the Revolution of 1848.
11. The post-war unemployment problem of Great Britain.
12. Unemployment insurance on the continent of Europe.

PART FOUR

COLLECTIVE BARGAINING AND LABOR ORGANIZATIONS

Chapter XII. The Development of Collective Bargaining in England and the United States, *The Legal Status of Labor Organizations.*

Chapter XIII. Development of Labor Organizations and Employers' Associations, *The Parties to Collective Bargaining and the Present Industrial Alignment.*

Chapter XIV. Aims and Policies of Trade Unionism, *The Economic Basis of Collective Bargaining.*

Chapter XV. Labor Disputes and the Weapons of Last Resort, *Problems of Industrial Conflict.*

Chapter XVI. Industrial Arbitration and Conciliation, *Problems of Industrial Peace.*

CHAPTER XII

THE DEVELOPMENT OF COLLECTIVE BARGAINING IN ENGLAND AND THE UNITED STATES

THE LEGAL STATUS OF LABOR ORGANIZATIONS

1. Class Struggle.—Class struggle, as well as group warfare, is older than recorded history. In ancient Greece the conflict among the men of the hills, the men of the plains, and the men of the sea was largely economic. The slave insurrections and class struggles which shook the later Roman Republic were economic, as well as social and political. During the Peasants' Revolt of the medieval period the ideal of social and economic equality found expression in the old song

> When Adam delved and Eve span,
> Who then indeed was gentleman?

The exploitation of the laboring classes has existed throughout the ages, but it has assumed many different forms. Karl Marx, the German socialist, attempted to sum up the evolution of the workers into the three following stages: (1) slavery, (2) serfdom, and (3) wage slavery. Under slavery there was no problem of wages because the person of the slave, as well as his services, was the property of his master. Serfdom represented a slight improvement over slavery, for the serf was regarded as attached to the soil and could not be sold off the estate of his master.

Slavery is older than civilization. The cultured classes of Greece and Rome lived in leisure because of the enslavement of the masses. During the Middle Ages the vast slave system of the Roman Empire gradually gave way to the serfdom of the medieval period. But the amelioration of the workers was slight, for the laboring masses continued to be exploited by the ruthless military classes.

The beginning of the modern era saw the development of commerce and the coming in of capitalism. As currency came into common usage the medieval payments in labor and produce gave way to money rents and money wages. The rise of capitalism saw the decline of serfdom and the break-up of the manorial system. Serfs gradually became free peasants and artisans, although the transition was not completed in western Europe until the period of the French Revolution, and even later in Russia.

The Industrial Revolution, involving the use of power machinery and the factory system, marked the advent of a recent phase of capitalism

which has been termed industrialism. The political center of gravity shifted from the old landed aristocracy to a new capitalist class of manufacturers. The workers, who had lost control of their instruments of production, were exploited under the new order of things even more than formerly under a benevolent slavery or a patriarchal serfdom.

The oppressed workers in the crowded manufacturing cities began to demand relief from certain new forms of industrial maladjustments, just as their forefathers had revolted in the days of the Gracchi or John Ball. Social unrest expressed itself in a different class consciousness, as trade unions and other new forms of labor organization developed. The old problem of class struggle now expressed itself in a conflict between capitalists and wage earners rather than between the enslaved and the free, the military and the industrial, or the landed and the landless groups.

2. From Status to Contract.—Status is a condition determined by birth, as for illustration, slavery and serfdom. Freedom of contract, on the other hand, implies social and economic liberty due to the absence of hereditary castes. Contract involves a freedom of choice to accept or to reject certain conditions of employment. An individual possesses the legal right to bargain as to wages, hours, and general working conditions, as well as the freedom to move about from one employment to another in search of better prospects.

Although capitalism and the wage system have frequently been condemned by radical critics of the present order, it cannot be denied that the transition of the worker from status to contract was accomplished largely by the development of capitalism and the wage system. The evolution from serfdom to free peasantry was due, in large part, to the growth of capital and the wider use of money. Cash payments instead of payments in kind and in service were made for the use of land. As commerce increased and a money economy supplanted barter, cash wages were paid to labor.

The growth of towns was associated with the rise of capitalism and the transition from status to contract. A runaway serf, who left his agricultural manor, fled to the town and became an artisan. If he lived for a year and a day in a free city, he became a free man. The medieval doctrine was "city air makes free."

Freedom of contract, which was gradually achieved by the workers, slowly found its way into the law of the land. At first it was expressed in the common law and later in written statutes. But the early legal view of the relations between the two contracting parties was that of master and servant. The present legal concept of employer and employee is rather recent, as judged in the long perspective of history. Even today, labor law still affords many interesting survivals in terms and in principles of the former master and servant relationship.

The master and servant relationship was not anomalous in the days of the guilds, when an apprentice boy was expected to serve his master as well as to learn his trade. Nor was it so bad in the days of the domestic system, when the family was still an economic unit and employment relationships were personal. But with the advent of the factory system and the impersonality of our modern economic life, such a legal concept became both antiquated and unjust.

3. Origins of Collective Bargaining.—The term "collective bargaining" is as indefinite as are the terms "wage system" and "freedom of contract." In its broadest sense collective bargaining may be defined as group rather than individual competition and as agreements between organized associations rather than isolated individuals. Weapons of collective bargaining and attempts to translate this general expression into more specific and concrete terms will be treated in Chaps. XIV and XV.

It must be noted at the very outset, however, that the term "collective bargaining" may be used in a political and social sense, as well as in a purely economic sense. Moreover, the general economic aspects of collective bargaining transcend those of labor organizations in modern industrial disputes. Finally, collective bargaining may be used by capital as well as by labor, and by employers as well as by the workers.

Although collective bargaining has been given new forms and an added importance by the changes of the Industrial Revolution, it is far older than modern industrialism. Indeed, collective bargaining is as old or even older than capitalism and the wage system. Although superseding to a large degree individual bargaining, collective bargaining developed simultaneously with freedom of contract, expanding in the centuries following the early development of freedom of contract.

Collective bargaining may be traced as far back as the medieval charters which the townsmen received from their local dukes or distant kings. These medieval charters of free cities were essentially collective contracts containing certain privileges and exemptions from their former feudal obligations.

The medieval guilds practiced collective bargaining and had mutual understandings or written agreements with their members as to the quality of their goods, their prices, output, and general working conditions. Interesting comparisons can be drawn between the medieval craft guilds and the modern trade unions as associations for collective bargaining.

Essential differences, however, lay in the former absence of power machinery, the factory system, and large-scale production. In an age of craftsmanship and production by hand tools the apprentice expected to become a journeyman, and a journeyman had the practical possibility of becoming a master workman. Considerable skill but only a moderate

amount of capital was necessary. Moreover, master and apprentice worked side by side in the same shop. Industrial relations were personal and even parental. There was a craft consciousness and a class consciousness, but neither took the form of an alignment of laborers against capitalists. These differences in fundamental conditions must be remembered in comparing the collective bargaining of medieval craft guilds with that of modern trade unions.

The close of the medieval period and the dawn of modern times witnessed the rise of commerce, the coming in of capitalism, and the development of foreign markets. Nationalism succeeded feudalism, and colonial empires meant the end of local self-sufficiency. Kings and queens granted their royal favors to soldiers of fortune and merchant princes. National charters were later issued to trading companies for their distant enterprises. Great companies, such as the British East India Company, took the place formerly occupied by the trading guilds and the merchant adventurers. Many of the new trading companies possessed monopoly privileges from the very beginning.

As the principle of limited liability developed, the modern business corporation began to take its present form. Special charters were granted to banks, turnpike and canal companies, and later to the railroads. Although the power of collective action increased still further with the formation of modern industrial corporations, the right of association was freely granted to capital.

It is interesting to note that governmental hostility toward the collective action of capitalists was not expressed nearly so promptly as toward the collective action of the workers. Indeed, governments formerly condoned and sometimes favored many of the monopolistic practices of early groups of capitalists. On the other hand, as we shall now see, labor's first attempts at united action, collective bargaining, and even the very expression of the ancient right of free association were regarded with suspicion. Early trade unions were regarded as criminal conspiracies and bitterly opposed by the government.

4. Early Opposition to Collective Bargaining of the Workers in England.—The prevalent economic philosophy of early modern times was that of mercantilism which favored the governmental regulation of commerce and industry. Powerful monarchs sought to regulate not only their foreign commerce but also the prices of commodities and labor in the home markets. Thus the English Statute of Apprentices attempted to limit the wages of certain workers, just as other laws, such as the Assizes of Bread and Ale, sought to regulate the prices of certain important food staples.

On the other hand, the economic philosophy of *laissez-faire*, which was prevalent during the early decades of the nineteenth century, represented the doctrine of governmental non-interference with industry.

Consequently, the problem of wage determination was viewed differently, although the actual result of both attitudes was the keeping down of wages. The classical economists contended that wages were limited by the supply of capital available for the subsistence of the workers. Any arbitrary interference with the results of the law of supply and demand was regarded as a futile and unwarranted attempt to raise wages above a certain natural rate.

Early trade unions in England were viewed by economists with disdain and by the government with opposition. A series of laws, known as the "Combination Acts," which had been passed by the British Parliament, sought to prevent either employers or employees from combining to raise the prices of their commodities or services. The law proscribed specifically all agreements among the workers to raise wages, to lessen the hours of work, or to improve conditions of employment. Justices of the peace were empowered to sentence to two months' imprisonment members of such combinations. Under these Combination Acts a number of labor leaders were imprisoned and others were deported to the convict colony of Australia.

Early trade unions in England were conspiracies under the common law, as well as under such specific statutes as the Combination Acts. As late as the opening of the twentieth century a British Court pointed out the legal significance of collective bargaining in the following analogy which contains traces of the old doctrine of conspiracy.

"A grain of gunpowder is harmless but a pound may be highly destructive."[1]

5. Present Status of Collective Bargaining in Great Britain.— British statutes expressly forbidding trade unions were repealed in 1824, and in the following year an act was passed which gave legal recognition to collective bargaining. It was not until a full half century later, however, that trade unions acquired full legal sanction with the passage of the Trade Union Acts between 1871 and 1875.

In the Conspiracy and Protection of Property Act of 1875 it was declared that no act, which was not criminal if committed by an individual, was conspiracy when committed by two or more persons acting in combination. This law has been regarded as the Magna Charta of British trade unions, for it freed them from the shadow of the former doctrine of conspiracy.

In the opening years of the nineteenth century the British House of Lords rendered a famous decision in the Taff Vale case by assessing a union of railway workers for large damages done to the company because of violence during its strike. The newly won freedom of British trade unions was seriously threatened. But in 1906 Parliament passed the Trade Union Disputes Act which placed labor organizations on a plane

[1] *Quinn vs. Leathem,* British Appeal Cases, p. 45, 1901.

of equality with employers' association, and which distinguished both such associations from merchant combinations to control prices.

The Trade Union Disputes Act relieved both organizations of employers and of employees from liability for damages from acts done in connection with trade disputes. Under the new law the British court must discover and punish the individual criminals or conspiracy of criminals. It cannot diffuse the responsibility over the entire membership of the trade union which is a party to the industrial dispute in which the violence is perpetrated.

The present legal status of collective bargaining in Great Britain has been described as follows:

> In the English law, there are no doubts as to the legality of labor unions or of employers' associations. Both the lockout and the strike are legal, as are the boycott and the blacklist. Parallel to the right of employers to get new workmen is the right of the strikers to picket peacefully and to induce them to abstain from working. England's policy is to allow both sides a free hand for a fair fight. It ignores the motives which underlie labor disputes. It does not interfere until the line of intimidation and violence has been crossed. This is a line definitely established by statute, and not left wholly to the courts. The British law has the merits of certainty and practicality.
>
> The most radical departure in the British Trade Disputes Act must still be noted. It is the exemption of trade unions and employers' associations and their members from all responsibility in tort for wrongful acts alleged to have been committed in their behalf. This was Parliament's answer to the Taff Vale case. It made it impossible to maintain any damage suit against a trade union or an employers' association. This is a greater privilege than the limited liability of business corporations. The liability is not merely limited; it is removed *in toto*. Even though a union may be responsible for acts of violence, it cannot be sued for the damage it caused. Our courts hold the members of labor unions to the unlimited liability of partnerships; in England they are not liable at all.[1]

6. Status of Collective Bargaining in the United States.—There is a striking contrast between the present legal status of collective bargaining in the United States and Great Britain. Although American trade unions were not forced to go through such a severe and protracted struggle as did the English trade unions, they have not progressed nearly so far toward legal freedom and economic power as in the mother country.

At the present time the right of trade unions to exist in the United States is not denied, but in certain states labor organizations which are committed to syndicalism are illegal in themselves. Although the empty right of collective bargaining is not denied by the laws of any states, certain weapons of collective bargaining have been outlawed in many American states.

[1] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., pp. 133 and 134, 1927.

The old doctrine of conspiracy has shadowed the legal status of collective bargaining in the United States, and the question of motive has continued to play an important part in the legality of various labor disputes. Finally, labor organizations in the United States have not enjoyed the same freedom from legal responsibility for the acts of their members and sympathizers as in Great Britain.

In this country collective bargaining is restricted by constitutional as well as by statutory law. The courts are empowered to declare legislation unconstitutional. Many pieces of labor legislation have been held to be violations of such constitutional guarantees as that of the individual right of freedom of contract.

In the last place, laws concerning collective bargaining, like most other problems of labor legislation, fall within the residual powers of the individual states. Hence, laws concerning the rights and powers of collective bargaining vary from state to state. The confusion is further increased by the variety of court decisions in the different states. The Federal character of our American government, as well as its constitutional nature, has served to confuse the general status of collective bargaining. In Chap. XV the various weapons of collective bargaining will be analyzed. It will be seen that some practices of labor organizations are legal in some states and illegal in others, as well as valid at one time and unconstitutional at another.

7. Federal Legislation and Collective Bargaining.—One of the few important economic powers of the Federal government, which is specifically granted to it in the Constitution, is that over interstate commerce. It can easily be seen that laws passed by Congress for the regulation of interstate commerce may also affect the legal status of collective bargaining. One of the most important illustrations is the Sherman Anti-trust Act of 1890.

Although trade unions themselves have not been regarded as combinations in restraint of trade, many practices of collective bargaining have been held by the courts to be unwarranted interferences with interstate commerce and combinations in restraint of trade. Thus, the boycott maintained by the Danbury Hatters against the products of their employers was held in 1908 by the United States Supreme Court to violate the provisions of the Sherman Act. Under the provisions of this law triple damages of about $300,000 were awarded by the Court to the Loewe Hat Company.[1]

The Clayton Act of 1914 was originally heralded as the American Magna Charta of labor. It proclaimed that "the labor of a human being is not an article of commerce."[2]

[1] *Loewe vs. Lawler*, 208 U. S. 274, 24 Supreme Court, 301, 1908.

[2] Section 6 of the Clayton Act.

In addition to this general platitude against a commodity theory of labor the Clayton Act provided that the anti-trust laws should not be construed to forbid the existence of labor organizations nor to restrain their members from carrying out "legitimate objectives." But the Sherman Act had never been interpreted as a denial of the right of labor organizations to exist but rather as a restriction on certain weapons of collective bargaining. Moreover, the legalization of objectives, which were already legitimate, was as unnecessary as the declaration of the human character of labor.

The Clayton Act, however, did seek specifically to remedy some of the weaknesses of collective bargaining under the Sherman Act. It sought particularly to strengthen labor's weapon of the boycott and to weaken the employers' weapon of the injunction. But, as will be shown in Chap. XV, the high hopes of labor leaders have not been realized in either of these two particulars. The Clayton Act failed to clarify the legal status of labor organizations and to strengthen their weapons of collective bargaining.

8. Collective Bargaining and Conspiracy.—The doctrine of conspiracy is more than of mere historical significance in connection with collective bargaining in the United States at the present time. Consequently, it is highly important to have clearly in mind the essential nature of a conspiracy and to be able to distinguish between lawful combinations of labor and unlawful conspiracies. The following court decision clearly defines a conspiracy:

> A conspiracy is a combination of two or more persons, by some concerted action, to accomplish some criminal or unlawful purpose, or to accomplish some purpose, not in itself criminal or unlawful, by criminal or unlawful means.[1]

One of the most serious features of a conspiracy is the fact that all members of it are held responsible for the acts of all fellow conspirators in seeking their common ends. On the other hand, the doctrine of limited liability and the legal fiction of the corporation as a fiduciary person make it possible for individuals in business not only to restrict their financial responsibility but also to escape the consequences of many of their actions by passing them on to the corporation which may be fined, but which cannot be imprisoned.

A combination of workers to raise wages, which was originally regarded as conspiracy, is now viewed as legal. If it can be shown, however, that a combination of workers exists for the express purpose of injuring an employer or a group of employers, such a labor organization is an illegal conspiracy. The same is true of the organization if it accomplishes or seeks to accomplish a legitimate objective, such as higher wages, by unlawful means, such as the destruction of the employer's machinery.

[1] *Commonwealth vs. Hunt*, 4 Metcalf 111, Massachusetts, 1842.

If workers agree to destroy the plant of their employer, such an agreement is a conspiracy. If they agree to destroy his business, his reputation, his good will, or some other intangible asset, such an agreement may likewise be held to constitute a conspiracy. But if the aim of the workers is something legitimate, such as increased wages, shorter hours, higher standards of living, or improved working conditions, and the employer's business reputation or good will is injured incidentally, such an agreement is not conspiracy. Motive in law, rather than in fact, determines the question of guilt.

This limitation of the doctrine of conspiracy, if not its total elimination from the legal status of collective bargaining, has been a slow process. In the early decades of the eighteenth century American juries frequently held combinations of the workers to raise wages to be illegal conspiracies. During the 'thirties, however, a change in public opinion took place, and many juries failed to find such combinations to be illegal conspiracies. Finally, in 1842, the Massachusetts Supreme Court held that even a strike to secure the closed shop was legal.[1]

The labor disturbances which followed the Civil War were accompanied by a revival of the doctrine of conspiracy. The insistent demands of the wage earners, however, finally led to the repeal of the old conspiracy laws in many states and to the passage of laws in several industrial states which specifically legalized combinations of workers to raise wages and to reduce the hours of labor. Nevertheless, relief from the old conspiracy doctrine, similar to that which is now enjoyed by British labor organizations, has not been obtained in the United States.

9. Collective Bargaining and Property Rights.—Although the attempt to indict labor organizations as conspiracies has weakened, a new legal doctrine has been found to take its place. This has been discovered in the gradually developing concept of business as property. Good will or the established relationship of a going concern has come to be regarded by the American courts as property. Moreover, the concept of property has been extended to cover the right "to enter and do business." Such a legal view is important to the student of collective bargaining, for it involves unhindered access to the commodity and labor markets.

Labor disturbances may threaten the destruction not only of physical wealth but also of intangible rights, among which are the right to do business. Strikes may destroy the good will of an enterpriser, boycotts may prevent his selling goods by denying him full access to commodity markets, and picketing may interfere with his right to do business by restricting his right to enter the labor market.

In view of this broadening concept of business as property, the courts have extended the use of the injunction to prevent not only the destruction of human life and material wealth but also the impairment of intan-

[1] *Commonwealth vs. Hunt*, 4 Metcalf 111, Massachusetts, 1842.

gible rights, such as the right of doing business. The general problem of the use of injunctions in labor disputes will be discussed in Chap. XV. It is to be noted here merely that the injunction is now playing the same important rôle in conditioning the legal status of collective bargaining and its weapons that was formerly taken by the doctrine of conspiracy.

10. Legal Responsibility of Labor Organizations.—It will be remembered that the English law now provides that nothing which is done in connection with labor disputes which is legal when done singly is to be regarded as illegal when done collectively. Such immunity does not exist in the United States, where many actions which are legal when done individually are not legal when done collectively. Illustrations are certain types of boycotts and strikes, even though they be peacefully conducted. If damages are awarded by the courts in such cases, legal responsibility may be placed on the trade union itself, in lieu of, or in addition to, individual responsibility.

Moreover, labor disputes are frequently accompanied by acts of violence rather than conducted as purely peaceful collective bargaining. In such cases, the question as to the legal responsibility of the labor organization is an even more serious problem. The destruction of property during labor disputes is often done by irresponsible individuals within the union rather than by the labor organization as a group. Again, many deeds of violence often result from the actions of lawless individuals who may not be members of the labor organization and who may be entirely extraneous to the industrial dispute.

On the other hand, if labor organizations enjoyed complete immunity from acts of violence and deeds of destruction growing out of labor disputes, it would be easy for their angry members to terrorize their employers into granting their demands. Even under ordinary conditions it is not easy to apprehend and to convict criminals. During a labor dispute popular opinion frequently sides with the workers against the capitalists, so that arrests, evidence, and convictions are difficult to obtain.

In cases of civil suit rather than criminal action, the individual who is sued is apt to have so little wealth that adequate damages for the losses sustained are frequently out of the question. The only redress of the injured employer is to attach the funds of the union and to hold the labor organization responsible, so far as possible, for the material or immaterial damages done by its officers, members, or sympathizers.

An important court decision in the matter of the responsibility of labor organizations is that of the Coronado Coal Company against the United Mine Workers. Considerable destruction of mining property was done by a mob during a strike in Arkansas. Accordingly, the Coronado Coal Company brought suit under the provisions of the Sherman Act against the United Mine Workers for damages of over a half

million dollars, in addition to seeking the criminal prosecution of those individuals charged specifically with the perpetration of unlawful acts of violence.

Although the United States Supreme Court absolved the international union of miners, it placed the responsibility for the damages on District No. 21 of the United Mine Workers which embraced the states of Arkansas, Oklahoma, and Texas. The case[1] dragged on for years, but it finally established the principle that labor unions and their individual members are responsible almost without limit for all unlawful acts of the union officers and agents whom they have in any manner authorized or sanctioned. Continuous membership in the union after publicity has been given to the unlawful acts done in its behalf is sufficient of itself to constitute approval thereof.

Labor leaders bitterly resented this Supreme Court decision as to the responsibility of labor organizations in industrial disputes. They pointed out that leaving the union may mean the loss of insurance benefits, the termination of numerous friendly associations, and, perhaps, the elimination of the only organization for collective bargaining in its field. Although there are good reasons why members of trade unions should be less responsible than stockholders in a corporation for the acts of their officers or agents, such a court decision would make them even more responsible.

11. Incorporation of Trade Unions.—The right of incorporation, which is possessed by labor organizations, is rarely used by them. Although most states permit the incorporation of trade unions and the Federal government has authorized the incorporation of national unions, such a policy has generally been opposed by labor leaders. It has been felt that incorporation would facilitate the attaching of the funds of trade unions after the rendering of such unfavorable verdicts as those of the Danbury Hatters or the Coronado Coal Miners. Moreover, it has been felt that trade unions might be made more vulnerable to court injunctions.

On the other hand, employers have advocated, and indeed they have insisted on, the incorporation of labor organizations as a means of increasing labor's responsibility. They have felt that the incorporation of trade unions would facilitate their prosecution of suits for breach of contract and increase the possibility of the collection of damages, if awarded to the employer against a labor organization.

The extent to which incorporation would increase the responsibility of labor organizations is doubtful. At present, it is possible for an unincorporated union to be sued in the courts for a breach of contract or for a violation of the law. A verdict may be rendered and damages

[1] *United Mine Workers vs. Coronado Coal Company*, 259 U. S. 344, 42 Supreme Court 520, 1922; *Coronado Coal Company vs. United Mine Workers*, 268 U. S. 295, 45 Supreme Court 551, 1925.

awarded against an unincorporated union. Some or all of its individual members may be held liable, in whole or in part, for these damages. It will be remembered that incorporation generally carries with it limited liability. It may be more difficult to collect damages from a responsible but fundless corporation, which can go through bankruptcy, than from numerous individuals in moderate circumstances.

In the Danbury Hatters Case of 1908, an unincorporated union was adjudged guilty of being a combination in restraint of trade because of the boycott which it fostered against the Loewe Hat Company. Triple damages of $300,000 were awarded under the provisions of the Sherman Act against the funds and members of this unincorporated union. The judicial decision in the case of the United Mine Workers against the Coronado Coal Company in 1922 further established the principle that unincorporated unions might be sued for the acts of their agents, and that union funds might be attached for damages when awarded. Thus, it would seem that the failure to incorporate may confuse, but it cannot eliminate, the financial responsibility of trade unions.

12. Collective Bargaining of Labor and Capital Compared.—The social aspects of collective bargaining by the workers is very different from that of capitalists. It has been expressed as follows:

> The issue of the desirability of collective bargaining by labor is much confused by the parallel of the combinations to control prices. Combinations to monopolize commodities are against public policy; why then should labor unions be favored in the law? This parallel overlooks the vital distinction between commodities and labor. The "commodity" labor can never be divorced from the human being, the laborer. The labor contract is a bargain, not only for wages, but also for hours of labor, physical conditions of safety and health, risks of accident and disease. Labor cannot be placed upon the same plane with commodities, which are external and inhuman. It is in the interest of the public that the most favorable conditions of labor shall prevail. Since labor constitutes such a large part of the public, the general welfare depends intimately upon its advancement. While the public suffers from high prices, it benefits from high wages.[1]

The economic aspects of collective bargaining by the workers are very different from those of their employers. Not only is labor a perishable "commodity" but the individual and collective resources of the workers are far less than those of their employers. Their relatively propertyless condition and the loss of ownership of the instruments of production by the workers result in inferior bargaining power, even though they be organized.

It is incorrect to regard labor unions as entirely comparable to business organizations seeking to raise the prices of their product through an exercise of monopoly power. Trade unions are not business organizations

[1] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 126, 1927.

like industrial corporations, for they have nothing to sell. Although an individual laborer sells his services, the trade union to which he belongs has not agreed to furnish a certain number of workers on the terms agreed.

> Its function is to induce employers to establish usages in respect to wages and working conditions which are fair, reasonable, and humane, leaving to its members each to determine for himself whether or not and for what length of time he will contract with reference to such usages.[1]

The economic differences between the collective bargaining of business corporations and trade unions have been expressed as follows:

> The modern corporation has taken over both of the bargaining functions of the masters of old: the *price bargain* and the *wage bargain.* In the first the corporation performs the *merchant* function, and its object is to get as high prices as possible from the consumer. In the second it performs the *employer* function, and its object is to give as low wages as possible to laborers.
>
> Collective action by capital has not stopped with the corporation. The corporations themselves have become members of associations. In these associations it has generally been found advantageous to separate the two bargaining functions. *Manufacturers' associations,* "pools," and "trusts" are formed to deal with the price of products to consumers. *Employers' associations* deal with the wages paid to labor. Practically the same individuals may compose these associations; but their functions are totally different.[2]

The legal significance of this important economic distinction follows:

> That capital and labor should be treated equally is a proposition fundamental to American law. But the dual bargaining functions of capital must be distinguished. The *price bargain* is something very distinct from the *wage bargain.* Trade unions do not deal with consumers at all. Their function is to offset the advantage the employer enjoys in bargaining about wages with the individual laborer. Equal protection of the law does not consist in treating a trade union like a *manufacturers' association* but in treating it like an *employers' association.* This is not class legislation but sound classification.[3]

It would seem, then, that trade unions should be regarded legally and economically as comparable to employers' associations, and not as comparable to manufacturers' associations, business concerns, or capitalistic monopolies. Neither labor organizations nor employers' associations, as such, are to be regarded as combinations in restraint of trade.

Although the law may object to certain weapons as illegal and to various policies as uneconomic, the state should not restrict the right of either side to organize, although forced to regulate the methods of

[1] *Hudson vs. Cincinnati, N. O. & T. P. R. Co.,* 152 Ky. 711, 154 S. W.

[2] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 100, 1927.

[3] *Ibid.,* p. 128.

collective bargaining. Social justice is advanced by minimizing glaring differences in bargaining power by facilitating the organization of the weaker party. Unfortunately, such has not always been the case.

13. Spheres of Legislation and of Collective Bargaining.—Labor organizations were at first primarily concerned with wages, hours of work, and the right of collective bargaining. They seemed singularly indifferent to general working conditions, especially to the conditions of employment of unorganized groups. It was state legislation rather than trade unionism which attacked such maladjustments as dangerous trades, child labor, and unsanitary living conditions. Of recent years, however, labor organizations have become vitally interested in these broader problems.

On the other hand, it would seem to be equally true that the raising or maintaining of wages has been achieved by collective bargaining rather than by state legislation. This is particularly true of the United States as compared with numerous other countries in which wage legislation has been passed. It is especially true in the case of adult male workers, with whose wages the state has been even more reluctant to interfere than with their hours and working conditions.

The existence of labor organizations, at least among the skilled, adult, male, industrial workers, has made the extension of the police power of the state not so necessary in their case as in that of women and children whose inferior bargaining power has placed them in even greater danger of exploitation. The freedom of contract of adult male workers, especially in the matter of wage determination, has rarely been challenged successfully in this country by state legislation.

In general, the government has interfered only to prevent fraud in the payment of the wages. Numerous states have legislated as to the manner of wage payments, but almost never have they legislated as to the amount of wages to be paid adult male workers. Thus, laws have been passed to make illegal the payment of wages in script rather than in cash. If the worker were paid in script or company labor checks, he might be forced to buy at the company store. By the payment of wages in script, which could be exchanged only for the goods or services of the company, profiteering was very easy.

States have also legislated against the withholding of wages from the worker. Employers have often been compelled under the law to pay wages regularly and at fairly short intervals. Delay in the payment of wages may occasion severe hardship to the workers. Again, the withholding of wages may force the worker to become hopelessly in debt, sometimes at ruinously high rates of interest and in unjust amounts. If carried to the extreme and accompanied by an extension of credit on the part of the company store, a condition of peonage may result. By means of chronic indebtedness and the possibility of imprisonment for

vagrancy, if escape were sought by flight, the Mexican peon and the southern Negro have often been held to enforced labor which savours very much of involuntary servitude.

14. Summary.—Class struggle and the exploitation of the workers are far older than capitalism and the wage system. Slavery and serfdom represent conditions of status, in which one's social and economic positions are determined by birth. Freedom of contract represents the opposite legal concept. In modern times status has given way to freedom of contract. Still more recently the legal concept of freedom of contract has changed from a former master and servant relationship to the present employer and employee relationship.

Collective bargaining may be used in a political and social sense, as well as in its common economic interpretation. There may be collective bargaining among employers as well as among employees. Although collective bargaining among merchants and employers is fairly old, that of industrial workers is relatively modern. The early attempts of the workers at collective bargaining and even at group organization were bitterly suppressed.

A conspiracy is a combination to accomplish something illegal or to accomplish a legal objective in an illegal manner. Early trade unions in England and America were regarded as criminal conspiracies. Although the British law has now freed labor organizations to a considerable degree from the charge of conspiracy, such is not the situation in the United States where they enjoy less legal immunity.

The legal status of collective bargaining, which in the United States falls within the residual or unspecified powers of the Federal Constitution, is confused by the different state laws on the subject. The various interpretations of the state and Federal courts have made the problem even more complex.

The chief Federal power over collective bargaining is that of interstate commerce. Under the provisions of the Sherman Act labor organizations have been indicted as combinations in restraint of trade when they made resort to certain weapons of collective bargaining.

Trade unions are comparable to employers' associations. Both are to be distinguished from merchant associations which are interested primarily in the prices of commodities rather than in the wages of labor.

Labor unions generally possess the right of incorporation, but they rarely use it. However, unincorporated unions may be sued and held responsible for damages assessed against them.

The injunction has taken the place in modern labor disputes which was formerly held by the doctrine of conspiracy. It is fairly easy for employers to secure from the courts injunctions restraining laborers or their sympathizers from acts of intimidation or deeds of destruction. Moreover, the legal concept of property rights has been extended from

that over material goods to that of good will and the right to do business in an unmolested manner.

Economic progress may be achieved by legislation, by collective bargaining, and by the efforts of socially minded individuals. The study of the achievements of labor legislation and labor organization is supplementary, for economic maladjustments may be attacked by the state from without, as well as by the workers from within, industry. Thus, there is both the political approach of legislation and the economic approach of collective bargaining.

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Questions for Discussion

1. Distinguish between status and freedom of contract.
2. Distinguish between slavery and serfdom.
3. Compare the medieval guilds with modern trade unions as associations for collective bargaining.
4. What is a conspiracy?
5. Show its importance in labor disputes.
6. Compare the present legal status of collective bargaining in Great Britain with that in the United States.
7. What factors serve to confuse the legal status of collective bargaining in the United States?
8. What were some effects of the Sherman Act on labor organizations and collective bargaining?
9. What did the Clayton Act accomplish in these respects?
10. In what ways may an extension of the right of collective bargaining affect property rights?
11. To what extent are trade unions responsible for damages?
12. Distinguish labor organizations and employers' associations from associations of merchants. Is this a valid and valuable distinction?
13. Compare the collective bargaining rights of labor and capital.
14. Differentiate between the spheres of legislation and collective bargaining in the United States.

Topics for Investigation

1. Economic factors in the struggles between Roman patricians and plebians.
2. Economic factors in the peasants' revolts of the medieval period.
3. Stages of economic history as interpreted by Karl Marx.
4. Collective bargaining before the Industrial Revolution.
5. Early English conspiracy trials of labor leaders.
6. Concept of the right to do business as a property right.
7. Incorporation of trade unions.

CHAPTER XIII

DEVELOPMENT OF LABOR ORGANIZATIONS AND EMPLOYERS' ASSOCIATIONS

THE PARTIES TO COLLECTIVE BARGAINING AND THE PRESENT INDUSTRIAL ALIGNMENT

1. Types of Labor Organizations.—Labor organizations are associations of workers for the purpose of improving their economic and social conditions. They may be classified according to either their form of organization or their functions. From the former point of view it may be said that there are three structural types of labor organizations: (1) labor unions, (2) trade unions, and (3) industrial unions.

The significance of labor unions, in the strict sense of the words, is chiefly historical, and the Knights of Labor may be taken as the best illustration of this type of labor organization. Into the labor union were welcomed all classes of workers. Indeed, professional men and even employers themselves were sometimes admitted. The labor union movement, which embraced many of the early labor organizations in this country, was humanitarian and idealistic. Instead of the strike and boycott, reliance was placed on education, social reform, cooperation, and political activity.

The trade union is essentially an association of the workers of one trade or craft. Although there may be federations of trade unions, each individual trade union preserves its own independent organization and autonomy of action. Trade unionism is essentially utilitarian in its aims and exists primarily for the purpose of collective bargaining. Reliance is placed on the strike and other economic weapons rather than on political action. The United Brotherhood of Carpenters and most member organizations of the American Federation of Labor are illustrations of trade or craft unions.

The industrial union, unlike the trade union, cuts across craft lines. It seeks to unite all workers in an industry into a coherent and centrally controlled organization. Class consciousness and group solidarity, rather than a narrow trade unionism or a broad humanitarianism, are stressed. The unskilled, as well as the skilled workers, are admitted into industrial unions, for they are not organized along craft lines.

Although the United Mine Workers' union is associated with the American Federation of Labor, it is an industrial rather than a trade union. All workers in the mines, irrespective of occupation or degree

of skill, may become members of that organization. The Industrial Workers of the World, however, is the greatest industrial union in America at the present time. It will be seen that it is far more radical in its aims and methods than is the American Federation of Labor.

Organizations of labor have also been classified as follows: (1) business unionism, (2) friendly or uplift unionism, (3) revolutionary unionism, and (4) predatory unionism.[1] It will be seen that the results of these two classifications are somewhat similar.

Business unionism is another way of expressing the immediate and utilitarian objectives of trade unionism, such as increased wages for a particular group of workers. Friendly or uplift unionism is also relatively conservative, but it is more general in its appeal and more idealistic in its aims than is trade unionism. Just as business unionism corresponds roughly to trade unionism, so friendly or uplift unionism may be illustrated by labor unions in the strict sense of the term.

Revolutionary unionism, as illustrated by the Industrial Workers of the World, stresses class rather than craft consciousness. It calls on all the workers to unite in an attempt to overthrow capitalism and to escape from the bondage of the wage system. Revolutionary unionism includes certain groups of socialists, who would establish a collectivism by political action, and syndicalists, who would establish an industrial commonwealth by direct action and economic weapons.

Predatory unionism has been interpreted as "business unionism gone wrong."[2] Like the political machine in a number of our cities, predatory unionism is corrupt and boss ridden. Without definite aims its course of action is expediency and opportunism. Predatory unionism has sometimes been characterized by violence and terrorism.

2. Early Trade Unions in America.—Colonial America was largely agricultural, and the labor supply was augmented by slaves and indentured servants. Manufacturing did not establish itself until about the time of the War of 1812. The true industrialism of the United States did not begin until the period of the Civil War. Nevertheless, even before the advent of the factory system, numerous craft organizations of skilled workers had developed in many of our larger towns and cities. It was not until after the first quarter of the nineteenth century, however, that these organizations of labor became significant in our national life.

The modern trade union or association of allied and organized crafts of workmen may perhaps be said to have originated with the Mechanics' Union of Trade Associations in Philadelphia in 1827. Similar organizations were formed in other cities and the movement was reflected in the development of local labor parties in a number of states. A National Trades Union was organized and held its first annual convention in

[1] Hoxie, R. F., "Trade Unionism," rev. ed., pp. 44–52, 1923.

[2] Carlton, F. T., "History and Problems of Organized Labor," p. 105.

1834. Carpenters, cordwainers, printers, and other skilled mechanics were organized into their respective national trade unions.

Early labor organizations expressed themselves vigorously against imprisonment for debt, convict labor, and sweatshops, and in favor of the 10-hour day, free schools, and mechanics' lien laws. The early trade unionist movement in America, however, lost its identity in the general uplift and humanitarian movements of the ante-bellum period. It was a time of reformers and antislave agitators, and the air was full of utopian schemes such as that of Brook Farm.

The great industrial development which followed the Civil War was accompanied by an organization of labor on a vaster scale than ever before known in America. Every large city had its trades' assembly composed of all the organized crafts. In 1866 was formed the National Labor Union which held annual conventions for the following six years.

3. Knights of Labor.—The Noble Order of the Knights of Labor was founded by a tailor in Philadelphia on Thanksgiving Day, 1869. At first it was a secret organization with a rather elaborate ritual. This was soon abandoned as the movement spread from the garment workers to those of other trades.

Moreover, the Knights of Labor ceased to be a local organization, as its ideal quickly expanded into that of an amalgamation of all workers into one great industrial organization. For a decade or two the Knights of Labor was a powerful force in our national life, but its zenith was reached in 1886 when its membership amounted to over a half million workers.

The original policy of the Knights of Labor was to discourage strikes and boycotts. It aimed to rely on educational and political action rather than on these economic weapons. Through cooperative means and a campaign of education, it hoped to abolish the evils of the wage system and to substitute a cooperative commonwealth.

The governmental machinery of the Knights of Labor was very highly centralized and internal dissentions soon arose among the local labor unions. Its membership and influence gradually waned. The brief reign of the Knights of Labor is now merely a historical landmark in the evolution of labor organizations in the United States.

4. Early Development of American Federation of Labor.—The American Federation of Labor was begun in 1881, but it was reorganized under its present name in 1886. It began as a reaction against the idealistic and centralized labor unionism of the Knights of Labor and in favor of the more practical objectives and independent organization of trade unions. The later disintegration of the once powerful Knights of Labor discouraged political activity on the part of organized labor and encouraged reliance on itself and on its own weapons of collective bargaining. Out of these circumstances and with these policies in mind, the American Federation of Labor was born.

At the time of its inception the affiliated national unions of the American Federation of Labor possessed a membership of only a few thousand. During the period of reorganization a few years later this amounted to one or two hundred thousand. Originally overshadowed by the Knights of Labor, the American Federation of Labor grew slowly in the first decade of its existence. On the other hand, the growth of trade unionism, as represented by the membership of the American Federation of Labor, was slow but sure during the 'eighties and early 'nineties, as contrasted with the relatively rapid rise and fall of labor unionism, as represented by the membership of the Knights of Labor. The situation may be seen by a glance at the following table:

MEMBERSHIP IN KNIGHTS OF LABOR AND AMERICAN FEDERATION OF LABOR FROM 1880 TO 1896[1]

Year	Knights of Labor	American Federation of Labor
1880.....	28,136	
1881.....	19,422	40,000
1882.....	42,517	65,000
1883.....	51,914	76,000
1884.....	60,811	105,000
1885.....	104,066	125,000
1886.....	702,924	138,000
1887.....	510,351	160,000
1888.....	259,578	175,000
1889.....	220,607	210,000
1890.....	100,000	225,000
1891.....	.....	238,000
1892.....	.....	255,000
1893.....	74,635	260,000
1894.....	.....	275,000
1895.....	.....	270,000
1896.....	.....	265,000

[1] WOLMAN, L., "Growth of American Trade Unions, 1880–1923," p. 32.

5. Recent Growth of American Federation of Labor.—In the closing years of the nineteenth century the membership of the American Federation of Labor began to grow very rapidly, increasing from 250,000 in 1897 to 500,000 in 1900. The gains were even more rapid in the next 4 years, the membership of the American Federation of Labor increasing to over 1,000,000 in 1902 and to over 1,500,000 in 1904.

Although the American Federation of Labor displayed rapid and consistent gains between 1897 and 1904, the period between 1904 and 1910 was one of relative stagnation and uncertainty, in which its membership continued to fluctuate around 1,500,000. But again there was a

period of rapid and steady growth between 1910 and 1914, in which year the 2,000,000 mark was reached. (See chart on opposite page.)

Although the year 1915 saw a slight reaction, the growth of the American Federation of Labor between 1916 and 1920 was very rapid and consistent. In 1916, its membership was over 2,000,000, in 1919 over 3,000,000, and in 1920 over 4,000,000. The period of inflation and prosperity which occurred during the war and the 2 years following it was accompanied by a great increase in the membership of the American Federation of Labor. (See table on page 342.)

The period of deflation and depression, which began in 1920, was accompanied by an immediate drop in the membership of the American Federation of Labor. Just as the increase in membership between 1916 and 1920 had been unprecedented, so the fall in membership between 1920 and 1924 was precipitous. The membership of the American Federation of Labor, which had been slightly over 4,000,000 in 1920, fell to slightly less than 4,000,000 in 1921, to slightly over 3,000,000 in 1922 and to slightly less than 3,000,000 in 1923. In 1924 there was a relatively slight decline of almost 100,000.

Since that time, however, the membership of the American Federation has remained fairly stable. Within the past year or two there have been evidences of a slight increase in numbers. Thus, the membership in the American Federation of Labor was 2,812,526 in 1927 and 2,896,033 in 1928.

6. Composition of American Federation of Labor.—The total membership of all trade unions does not represent the full strength of organized labor. Labor organizations include industrial and labor unions as well as trade or craft unions. Thus the Knights of Labor and the Industrial Workers of the World represent, respectively, a labor union and an industrial union. Although labor organizations, they are not trade unions.

Similarly, the total membership of the American Federation of Labor does not represent the full strength of trade unionism. It must be remembered that trade unionism includes some important but independent trade unions as well as those affiliated with the American Federation of Labor. Thus, the Amalgamated Clothing Workers, the American Textile Workers, and the Railroad Brotherhoods are craft unions, but they are not directly affiliated with the American Federation of Labor. On the other hand, although the United Mine Workers of America is an industrial union it is a member of the American Federation of Labor.

Although the membership of the American Federation of Labor is not identical with that of trade unionism, it does embody the great majority of trade unions. It will be seen in the following paragraph that trade unionism in general has experienced the same general movements as those of the American Federation of Labor.

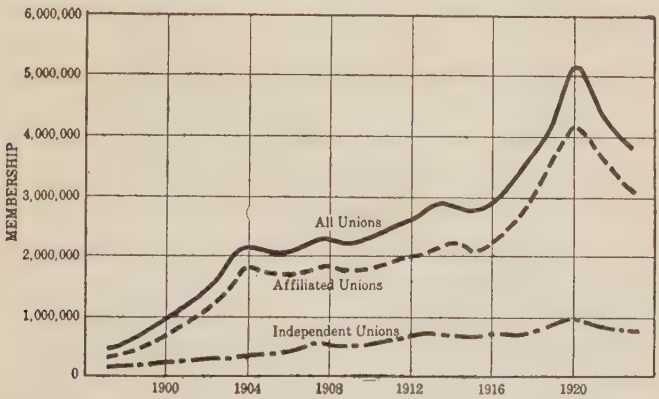
7. Recent Growth of American Trade Unionism.—The recent growth of membership in American trade unions has been studied by Prof. Barnett and also by Mr. Wolman of the National Bureau of Economic Research. In the main, the results of these two independent investigations are the same. It will be seen that the general trends of trade-union membership are the same as those experienced by the American Federation of Labor.

According to Prof. Barnett the modern history of trade-union membership in the United States divides itself into four distinct periods as follows:

(1) From 1897 to 1904 the membership increased from a half million to over two million, every year in this period showing an increase. (2) From 1904 to 1910 trade-union membership oscillated around the two million mark showing no trend either upward or downward. (3) Beginning in 1910 a pronounced upward movement became manifest. From 1910 to 1913 the membership of American trade unions ran from two million to nearly two and three-quarter millions. The movement was reversed in 1914 by the beginning of the industrial depression and by the outbreak of the Great War. By 1915, trade-union membership had fallen to approximately two and one-half millions. (4) In 1915 a great upward movement began. This movement did not slacken with the Armistice but continued in full force until 1920, at which time the number of trade unionists was only slightly short of five millions.[1]

The growth of trade unionism in the United States, as seen by Mr. Wolman, is pictured in the following chart.

CHART 38.—TRADE UNION MEMBERSHIP IN UNITED STATES (1897–1923)



Reproduced by permission, WOLMAN, L. "*Growth of American Trade Unions*, 1880–1923, *p.* 63.

Mr. Wolman's study of the development of American trade unionism carries the story several years later than does that of Professor Barnett. It reveals a fifth period of precipitous decline in membership from 1920 to 1923.

[1] BARNETT, G. E., "The Present Position of American Trade Unionism," *American Economic Review, Supplement*, p. 45, March, 1922.

The following reference table will show the recent growth of both the American Federation of Labor and American trade unionism in general.

RECENT GROWTH OF AMERICAN FEDERATION OF LABOR AND OF ALL TRADE UNIONS[1]

Year	Membership in American Federation of Labor	Total membership in all American trade unions
1897	264,825	447,000
1898	278,016	500,700
1899	349,422	611,000
1900	548,321	868,500
1901	787,537	1,124,700
1902	1,024,399	1,375,900
1903	1,465,800	1,913,900
1904	1,676,200	2,072,700
1905	1,494,300	2,022,300
1906	1,454,200	1,958,700
1907	1,538,970	2,122,800
1908	1,586,885	2,130,600
1909	1,482,872	2,047,400
1910	1,562,112	2,184,200
1911	1,761,835	2,382,800
1912	1,770,145	2,483,500
1913	1,996,004	2,753,400
1914	2,020,671	2,716,900
1915	1,946,347	2,607,700
1916	2,072,702	2,808,000
1917	2,371,434	3,104,600
1918	2,726,478	3,508,400
1919	3,260,068	4,169,100
1920	4,078,740	5,110,800
1921	3,906,528	4,815,000
1922	3,195,635	4,059,400
1923	2,926,468	3,780,000

[1] The figures of the membership in all trade unions are those of the National Bureau of Economic Research (WOLMAN, L., "Growth of American Trade Unionism"). The figures for the membership of the American Federation of Labor for the corresponding years are those of the Labor Yearbook for 1925.

8. General Trends of Membership in American Labor Organizations. Reviewing the entire period from the Civil War to the World War two peaks are discernible in the history of American labor organizations. One is the earlier and smaller peak of 1886, in which membership in all labor organizations totalled about one million. This year, however, represented the acme of labor unionism, rather than of craft unionism.

In the years which followed 1886 the membership of trade unions increased, but labor unionism fell off to almost negligible figures. The period of the World War and especially the two post-war years represented the greatest development of trade unionism in American history. The great peak of trade unionism in the United States was reached in 1920, when trade-union membership passed the five million mark.

The fall in trade-union membership between 1920 and 1923 was equally momentous, amounting to a decline of almost a million and a half. Although the 1918–1920 gains of trade unionism have been lost, its total membership is now about as great as that at the end of the World War and a round million greater than that before our entrance into the World War.

It will also be noted that there is some correspondence between the rise and fall of trade-union membership and that of economic prosperity. The business cycle decidedly affects the strength of trade unionism. In good years its membership increases, but in bad years it falls off. Thus, at the outbreak of the World War there was a slight business depression which reflected itself in trade-union membership in 1915. The following years, however, were those of business prosperity and of growth in trade-union membership.

The serious business depression of 1921 was likewise accompanied by a serious fall in trade-union membership. Although the period from 1922 to 1928 has been one of prosperity and increasing real wages, it has not been accompanied by a great increase in trade-union membership. This may be explained, in part at least, by the competing development of employee representation and company unions, a very important movement of the past few years.

9. Relative Strength of American Trade Unionism as Contrasted with That of Other Countries.—It is interesting to compare trade-union membership in the United States with that of other nations. This was done by the National Bureau of Economic Research. The results are as follows.

MEMBERSHIP OF TRADE UNIONS IN SELECTED COUNTRIES[1]

	1914	1920	1922
Australia	523,271	684,450	702,938
Canada	134,348	267,247	206,150
France	1,026,000	1,580,967	1,768,461
Germany	2,166,820	9,192,892	12,530,238
Italy	962,000	3,100,000	
Holland	266,000	683,500	640,000
United Kingdom	4,143,000	8,328,000	5,579,739
United States	2,716,900	5,110,800	4,059,400

[1] WOLMAN, L., "Growth of American Trade Unionism," p. 65.

It will be seen from this table that the recent growth in trade-union membership is a world movement. In the six years from 1914 to 1920 the membership in trade unions doubled in the United States and in many other countries. The movement was even more rapid in Germany and Italy. Although Australia does not show such a rapid growth in this period, the laboring population of that country was already highly unionized before the World War.

It will also be noted that Great Britain and Canada experienced a falling off of trade-union membership from 1920 to 1922 similar to that experienced by the United States. The reverse was true of France and Germany, but in these countries the post-war period of inflation continued longer than in the Anglo-Saxon nations. Although suffering from a rapidly depreciating currency, the employment situation was far better in Germany and France than in Great Britain.

Although the United States has a greater population than any of the countries listed in the table of the National Bureau of Economic Research, it does not take first place in trade-union membership in any of the three years studied. Its relative position in this respect is even lower than its absolute position. Trade union membership in the United States in proportion to population or in proportion to the number of individuals gainfully employed is low as compared with other industrial nations, such as Great Britain and Germany.

10. Composition of American Trade Unionism.—Fluctuations in the type of membership in trade unions are as interesting as the mere changes in total numbers. Various periods have been characterized by important differences in the qualitative as well as in the quantitative gains of organized labor in the United States.

The growth of trade unionism in this country before the World War was due to the formation of craft unions in the building trades and steam railroads, and also to the organization of the powerful United Mine Workers. Although the latter is an industrial organization it has affiliated with the American Federation of Labor.

From 1915 to 1920 there was some spread of trade unionism among the semi-skilled and even among the unskilled. Craft unions, as well as industrial unions, developed within the textile industries, packing houses, and metal industries. For the most part, however, American trade unionism has made small permanent gains among the semi-skilled workers, and almost none among the unskilled workers.

Another recent development has been the spread of trade unionism among women workers. It will be remembered that in the earlier discussion of the problems of women and children in industry it was pointed out that one of the chief reasons for the exploitation of these groups was their lack of organization and effective collective bargaining. Children cannot be organized into unions, and the answer here lies in state legis-

lation. But women workers can be organized and have recently been organized to a considerable extent. Thus, in the decade between 1910 and 1920 the number of women in trade unions increased fivefold. But in spite of this remarkable increase of trade unionism among women workers, it is still true that they are relatively not so well organized as men.

11. Organized and Unorganized Industries in the United States.— The relative strength of trade unionism among the various industries is as interesting as a comparison among different nations. The situation is represented as follows by the National Bureau of Economic Research:

TABLE SHOWING PERCENTAGE OF EACH INDUSTRY ORGANIZED[1]

Industries	1920	1910
Extraction of minerals	41.0	27.3
Manufacturing industries	23.2	11.6
Transportation	37.3	17.1
Building trades	25.5	16.4
Trade	1.1	1.0
Professional service	5.4	4.6
Clerical occupations	8.3	1.8
Domestic and personal service	3.8	2.0
Public service	7.3	2.5

[1] WOLMAN, L., "The Growth of American Trade Unionism," p. 86.

It will be seen that the strength of American trade unionism has long been in the artisan classes where it still lies. The highly organized industries are mining, manufacturing, transportation, and building. Although relatively well unionized in 1910, these industries made still greater gains in the decade between 1910 and 1920.

In addition to agriculture, the relatively unorganized occupations are trade, professional service, clerical occupations, domestic and public service. Moreover, trade, the professions, and domestic and personal service experienced little or no development toward trade unionism in the decade between 1910 and 1920. On the other hand, a definite tendency toward organization was manifested by the clerical occupations and public service in the same period.

It would seem that organized labor is relatively small as compared with unorganized labor. Trade unionism in the United States has obtained a hold on only a minority of all workers. Not only are the professional and salaried groups unorganized, but also public employees, agricultural workers, domestic servants, and the great mass of unskilled laborers employed in nearly all occupations.

Although the Industrial Workers of the World make an appeal to unskilled labor, only a small portion of it is represented among the mem-

bership of this organization. The American Federation of Labor and trade unionism in general are frankly craft conscious rather than class conscious. They have neither succeeded nor even attempted to absorb the millions of unskilled workers into their membership.

12. Strength of American Trade Unionism.—It is extremely difficult to estimate the strength of trade unionism. It is obvious that any such estimate should be based on the number of individuals gainfully employed rather than on the population in general. At the present time only one individual in every ten or fifteen gainfully employed belongs to a labor organization. If the comparison is restricted to wage earners, about one in every nine individuals belongs to a labor organization.

The American Labor Yearbook for 1928 estimates the situation as follows:

> Of about 30,500,000 wage workers in the United States, 2,812,526 were in the American Federation of Labor in 1927, and perhaps 700,000 more are in the railroad brotherhoods, the Industrial Workers of the World, the Amalgamated Clothing Workers, and other independent unions. This means that about 3,500,000 or only about one-ninth of the American workers, are organized in labor unions under their own control.[1]

In estimating the strength of trade unionism, independent trade unions should be included as well as the American Federation of Labor. But the Industrial Workers of the World should be excluded, for this organization is an industrial and not a trade union. Its membership should be included in estimates of the total strength of organized labor but not of trade unionism. On the other hand, the Labor Yearbook very properly excludes membership in company unions from the estimates of the strength of organized labor. However, company unions at the present time have a membership of over a million workers.

The National Bureau of Economic Research made a comparative study of the strength of American trade unionism in 1910 and 1920. The results are as follows:

GROWTH OF ORGANIZATION AMONG AMERICAN WAGE EARNERS BETWEEN 1910 AND 1920[1]

Year	Total wage earners	Trade union membership	Per cent organized
1920	26,080,689	4,881,200	18.7
1910	22,406,714	2,101,502	9.4
	Excluding agriculture		
1920	23,480,077	4,881,200	20.8
1910	19,262,941	2,101,502	10.9

[1] WOLMAN, L., "Growth of American Trade Unionism," p. 85.

[1] American Labor Yearbook, p. 105, 1928.

From the above table of the National Bureau of Economic Research it would appear that about one-tenth of the total number of wage earners were members of trade unions in 1910, but about one-fifth were members in 1920. In this decade the strength of trade unionism doubled in the United States, but in the years which followed 1920 there was a severe reaction. The present strength of trade unionism is somewhere between these two extremes, that is, less than at the close of the World War but greater than before it.

It will be seen that if the basis of comparison is changed from total wage earners to total wage earners exclusive of those engaged in agriculture, the percentage of workers in trade unions is raised by 1 or 2 per cent. In other words, the strength of trade unionism under the refined comparison is increased by about one-tenth of the unrefined comparison. If salaried workers, public employees, domestic and unskilled workers were excluded, as well as agricultural wage earners, the strength of organized labor would be still further increased.

The ratio of trade-union members to the total number of workers in mining, manufacture, transportation, and building was one to five or six in 1910 and about one to three in 1920. If unskilled workers in these industries were excluded from the basis of comparison the ratio could be raised even further.

13. Organization of American Federation of Labor.—The form of organization of the American Federation of Labor is that of a loose affiliation of slightly over a hundred national and international trade unions.[1] Any detailed study of the American Federation of Labor is impossible in this text, but it is important that the student observe behind its great complexity of structure the variety of organization and the freedom of action.

Samuel Gompers, the late president of the American Federation of Labor, defined it as follows:

> The American Federation of Labor is a federation of organizations, each of which has its own government, determined by its own needs and requirements, the result of the experiences of the members of the organization. The right to self-government was recognized in the beginning and has been reaffirmed and adhered to as consistently as possible. The federation has no powers except those which are authorized and conceded by the organizations which compose it. These powers are enumerated in its written constitution and in the definite direction of the convention.[2]

The local trade union is to the American Federation of Labor what the cell is to a biological organism, for it is the basic unit of the entire

[1] In 1927 the American Federation of Labor consisted of 106 national and international (United States and Canada) unions, and 365 small local trade or Federal unions in occupations where no national union existed.

[2] GOMPERS, S., "Labor and the Employer," chap. 1.

union organism. With this as the starting point, the process of combination may be vertical, horizontal, or both. The locals are required to join the national unions of their respective trades. Sometimes there are also state and international trade unions. At the same time a local trade union may affiliate itself with the central labor union of the town or city in which it is located. In such a case the combination is termed a "Federal trade local." Where the number of workers in any one craft is too small to form a local for any one particular trade, they may ignore craft lines and organize as a Federal labor union.

The national or international trade union is an important unit, for sovereignty lies in the national trade union rather than in the American Federation of Labor. Strong national trade unions maintain experienced organizers, create their own locals, and issue charters. Sometimes they render financial assistance to struggling locals, but at other times they discipline and even suspend them for going against the general policy of the national trade union and the American Federation of Labor.

The annual convention of the American Federation of Labor is important. Officers are elected, problems are discussed, and policies are formulated. Each national trade union is represented by one delegate for each four thousand paid-up members or fraction thereof. One delegate each is also allowed for state federations, city centrals, Federal labor unions, and Federal trade locals. Numerous fraternal organizations are also represented. There is elected annually an executive council, consisting of a president, numerous vice-presidents, a secretary, and treasurer. It is this executive council which carries on the work of the American Federation of Labor from one annual convention to another. Permanent headquarters are maintained in Washington from the revenue derived from a per capita assessment on the membership of the affiliated bodies.

14. Development of the Industrial Workers of the World.—The Industrial Workers of the World, as contrasted with the American Federation of Labor, is an industrial, rather than a trade, union. Moreover, its aims and practices, as well as its organization, afford a striking contrast to the more conservative American Federation of Labor. The Industrial Workers of the World represent revolutionary rather than evolutionary unionism. Bitterly opposed to the utilitarian aims and the conservative methods of trade unionism, the promoters of this new labor organization sought the union of workers by industries rather than by crafts, and cherished the hope of a final amalgamation into one big union. Whereas the American Federation of Labor accepts capitalism and the wage system, the Industrial Workers of the World seek the destruction of the present economic and political order.

The organization now known as the Industrial Workers of the World emerged in 1905 at Chicago as a merger of such radical groups as the

Socialist Labor Party, the American Labor Union, and the Western Federation of Miners.[1] In 1908 differences developed as to the course of action, and the Industrial Workers of the World split into two groups which were known as the Chicago and the Detroit branches. In 1915 the latter became known as the Workers' International Industrial Union. This group has socialism as its objective and favors political as well as industrial action. It may be classified as a type of socialism.

15. Aims and Policies of Industrial Workers of the World.—The Industrial Workers of the World, that is, the Chicago branch after the secession of the Detroit branch, is syndicalistic rather than socialistic. *Syndicat* is the French word meaning "union." The Industrial Workers of the World in America, syndicalism in France, revolutionary industrial unionism in England, and bolshevism in Russia are different national aspects of a general world movement. Private property rights and the state, as we understand them, are condemned. The ideal is that of an industrial commonwealth of free associations of the workers, like the Russian Union of Soviets.

The Industrial Workers of the World repudiate political action on the one hand and collective bargaining on the other. They seek direct industrial action by means of the general strike of all workers. The doctrine of class struggle is taught and the solidarity of all workers or the proletariat is sought for the overthrow of the capitalists or bourgeoisie.

Direct industrial action includes not only the general strike but also sabotage. The origin of this term is to be found in the French word, *sabot*, meaning the "rough wooden shoe" worn by workers. The American expression of "dropping a wrench in the works" is the equivalent. If the demands of the workers are not met, they may secretly destroy the machinery or the goods of the employer. It is almost impossible to discover the malefactor and great financial loss may result. On the other hand, the employees do not suffer the loss of employment and wages which a strike generally necessitates. Sabotage may be merely the peaceful "soldiering on the job," which is expressed by the Scotch words "go cannie."

16. Strength of Industrial Workers of the World.—Because of their radical aims and violent methods the Industrial Workers of the World is a much feared and hated organization. However, it is less powerful numerically than is sometimes supposed. Its paid-up membership just before the World War was only 14,000, although at that time there were 100,000 membership cards which had been issued to various workers. Just before America's entrance into the war, the paid-up membership was probably 60,000. Hence, it would seem to have been on the increase.

[1] This organization later withdrew and joined the American Federation of Labor.

During the war a vigorous policy of suppression was carried on by the government. Whether the result was an increase or a decrease in the membership of the Industrial Workers of the World is difficult to determine. A policy of secrecy was adopted and a resort to underground methods of activity was made by this and many other radical organizations. At the Sixteenth Annual Convention of the Industrial Workers of the World in 1924 its membership on the basis of dues paid was reported as 37,600.

It is far more difficult to get authoritative figures for the membership of the Industrial Workers of the World than for the American Federation of Labor. The former organization represents a variable and unsteady group of workers. It is largely composed of floaters and casual workers. Even within the group itself, there is little solidarity or unity of thought and action.

It seems hardly likely that the Industrial Workers of the World will assume the leadership of the American Labor movement, even though their numbers should increase. In spite of certain apparent tendencies the labor movement in this country still seems craft rather than class conscious, practical rather than utopian, and individualistic rather than socialistic.

17. Associations of Employers.—The development of various labor organizations has been paralleled by the development of various associations of employers. The practices and policies of the former have been opposed by those of the latter. Although the membership of labor organizations is greater than that of employers' associations, the financial reserves of the latter are much larger.

There is nothing inherently wrong in the organization of either capital or labor, for it is merely a frank recognition of group differences along modern economic lines. Effective collective bargaining requires such organization by both parties. But if industrial conflict rather than the peaceful settlement of differences results, such militant methods of capital and labor are productive of much harm. The economic weapons used by both sides may be socially injurious.

Although the development of employers' associations came later than that of labor organizations, germs of such associations are as old as those of trade unions. In the days of the medieval guilds there were associations of master craftsmen, although there was no such gulf between labor and capital as existed after the Industrial Revolution.

In 1789, there existed the "Society of Master Cordwainers of the City of Philadelphia." In other American cities organizations of employers were formed to oppose the unlawful conspiracies of workers to secure higher wages and shorter hours of work.

It was not until after the industrialization of the United States, in the period following the Civil War, that association of employers, like organ-

izations of workers, achieved national dimensions. In 1875, there was organized the first national association of manufacturers of a given industry, the United States Potters' Association. In 1886, appeared the Stove Founders' National Defense Association. In 1891, it began to make formal agreements with the Iron Molders' Union of North America. Other national associations of employers were formed in the closing years of the nineteenth century and in the opening years of the twentieth century.

The sympathetic strike of laborers produced still wider and closer associations of employers. In 1895, the National Association of Manufacturers was organized. It is significant as the first national organization of employers open to all manufacturing industries. Although its chief objects now are to secure protective tariff legislation and to develop foreign exports, labor problems and policies were also a part of the original program of this association. In 1903 there was formed the Citizens' Industrial Association of America specifically for the latter objectives. National and local units were organized to oppose the demands of organized labor.

In 1902, there was organized the American Antiboycott Association, which was later termed the League for Industrial Rights. In 1907, there was formed the National Council for Industrial Defense. The latter organization had the avowed purpose of opposing such labor legislation in Congress as it deemed undesirable. State associations of manufacturers have also been organized in all important industrial states to keep a watchful eye on the course of labor legislation within their respective borders.

In 1916, there was created the National Industrial Conference Board for the purpose of collecting information on labor practices and crystallizing the policies of independent employers. It is more scientific and less propagandist than some other associations of employers. It has made numerous and important studies of industrial problems. Chambers of commerce should also be mentioned in this connection, for the varied work of these local, city, state, and national bodies includes labor policies and practices.

With the close of the World War a renewed impetus was given to the organization of employers. In the years of depression and unemployment which followed, an effort was made to win back some of the gains which organized labor had achieved during the war. A survey by the National Industrial Conference Board in 1921 claimed the existence of several thousand employers' associations with a total membership which ran into the millions.

18. Organization and Objectives of Employers' Associations.—The forms of employers' associations are as varied as those of labor organiza-

tions. Indeed, the one depends on the other, as well as on the nature of the industry and the objectives of the association.

Some associations of employers recognize collective bargaining on the part of the workers. Indeed, a few are organized primarily for the purpose of making agreements with them as to wages, hours, and other industrial issues. Other associations of employers, sometimes known as the "militant" type, are organized for the purpose of opposing collective bargaining on the part of their employees.

Most associations of employers, however, are somewhere between these two extremes. They are as opportunistic in their policies as labor organizations. They may recognize collective bargaining in principle, but they take every opportunity to oppose those practices of labor which make collective bargaining effective. Although opposed to the walking delegates of the union, they employ their own salaried secretaries, organizers, and publicity men.

The open shop has been a leading issue of associations of employers. They object to any compromise on the right to hire and fire whom they please, and to run their own businesses without outside interference. Although tacitly retaining the right to use the lockout, the injunction, and the blacklist, associations of employers oppose the strike, the boycott, and the unfair list of labor. Much is spoken and written about the personal liberty of employer and employee, and of the freedom and sanctity of contract.

Most associations of employers oppose both the restriction of output and the limitation of apprentices on the part of organized labor. But the employer should not be prevented from introducing machinery or any other labor-saving devices of manufacture. Again, he should be permitted to utilize whatever methods of industrial remuneration seem best. Moreover, encouragement should be given to vocational education, industrial training, and trade schools to insure an adequate supply of skilled labor. Unrestricted immigration is regarded as necessary to provide unskilled labor from Europe. Such is the position of many associations of employers.

Abundant funds have been spent in the war against the closed shop. In cases of emergency, financial, moral, and legal support is given to the employer who is faced with a labor crisis. Spy systems are sometimes used to detect sources of industrial unrest, as well as threatened property damage. Adequate employment lists of tractable workers are kept by the central agencies, whence groups of laborers can be shipped hurriedly as strike breakers to the place of need.

19. Summary.—Labor organizations may be classified according to their type of organization, *e.g.*, labor unions, industrial unions, or trade unions; and according to their functions and methods, *e.g.*, conservative

or revolutionary unions. The significance of the Knights of Labor, a powerful labor union, is merely historical.

The American Federation of Labor and the Industrial Workers of the World are the two important organizations of labor at the present time within the United States. The former is a trade union and the latter an industrial union. The former relies on the strike, the boycott, and other methods of collective bargaining, while the latter advocates the general strike and sabotage. The former accepts the present industrial system, but the latter seeks to overthrow modern capitalism.

Although the American Federation of Labor numbers several millions, the larger portion of the workers of the country are unorganized. Illustrations are unskilled labor, clerical and professional group, agricultural workers, and women and children. Trade unionism made great progress in the United States during the World War, but it is still relatively and even absolutely less in numerical strength than in numerous European countries.

The organization of the workers has been paralleled by the growing organization of employers. An illustration is the National Association of Manufacturers. They favor the open shop and oppose many of the practices of organized labor, such as the limitation of apprentices, the restriction of output, and the employment of "a walking delegate." Collective bargaining has assumed a militant form and each side has attempted to strengthen its economic position in the industrial conflict.

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Questions for Discussion

1. Outline different kinds of labor organizations.
2. What are their essential differences and similarities?
3. Discuss the aims and organization of the Knights of Labor.
4. Outline the development of trade union membership in the United States.
5. Contrast the American Federation of Labor with the Industrial Workers of the World with regard to organization, weapons, and objectives.
6. What industries are largely organized and what are unorganized?
7. Can it truly be said that the American Federation of Labor represents the workers of the nation? Why or why not?
8. What seems the fairest way to appraise the strength of trade unionism?
9. Outline the chief aims of some associations of employers.

Topics for Investigation

1. The labor movement in America before the Civil War.
2. Trade unions outside the American Federation of Labor.
3. The organization and constitution of some trade union with which you are familiar.
4. Its relationship with other such organizations.
5. The Industrial Workers of the World and the World War.

CHAPTER XIV

AIMS AND POLICIES OF TRADE UNIONISM

THE ECONOMIC BASIS OF COLLECTIVE BARGAINING

1. Primary Objectives of Collective Bargaining.—Collective bargaining is the answer of the organized workers to their real or fancied helplessness under the present wage system. The chief object of labor organizations is the raising of wages or the maintenance of customary standards of living against a rising price level. Closely associated with the objective of higher wages, however, is the desire of the workers for a shorter working day and increased leisure. Indeed, these two primary objectives of collective bargaining have often been merged into a single ideal. The following slogan of the American Federation of Labor is typical.

> Whether you work by the piece or work by the day
> Decreasing the hours increases the pay.

The securing of these two primary objectives of collective bargaining is conditioned by the strength of organized labor. Hence, another primary aim of trade unionism is the maintenance of the right and the power of collective bargaining. Trade unions constantly seek to strengthen their own forces and weapons. They are bitterly opposed to any practices or restrictions which may sap the effectiveness of collective bargaining.

2. Secondary Functions of Labor Organizations.—Trade unions are often mutual benefit associations which provide out of their accumulated dues for their disabled, bereaved, or unemployed members and families. Labor organizations sometimes maintain insurance programs of their own for the numerous hazards which their members face. Often they are affiliated with fraternal benefit associations. Labor organizations also frequently serve as employment bureaus for their members. They seek to find jobs for those out of work, and frequently maintain valuable records of the amount and causes of unemployment.

Some labor organizations perform important educational work. Periodicals are published, and numerous meetings are devoted to educational as well as to business programs. Thus, the garment workers maintain evening classes and even college courses for their members. Their annual almanac possesses artistic, literary, and educational merits, as well as a mere utilitarian purpose. The discussions in economics

held by the Labor College for its members would put to shame the recitations in that subject of some undergraduates in our leading universities.

The social and recreational functions of many labor organizations are important. A local labor organization or a local federation of labor organizations may become a social center for the workers and their families. If the organization is large and prosperous, headquarters may be maintained in a fairly imposing building. Offices, lecture halls, meeting rooms, reading rooms, recreational rooms, and numerous pleasant club features may be developed. These recreational features, however, are often provided by an affiliated fraternal organization.

Labor organizations have recently become interested in other objectives than those described in the preceding paragraph. The primary or "bread and butter" functions of labor organizations have been supplemented by a host of secondary objectives. Thus, some workers are demanding not only a greater participation in the product of industry, but also in its control.

The educational program of labor is resulting in some very keen and critical analyses of our present industrial system. Although conservative labor organizations are pleading merely for the copartnership concept of labor in industry, revolutionary unionism proposes the elimination of the enterpriser, the wage system, and capitalism.

3. Necessity of Collective Bargaining.—Collective bargaining on the part of organized labor is the result of the disadvantages of the isolated worker in individual bargaining. The economic aspect of a competitive wage is affected by the fact that the two parties to the contract are of such vastly different bargaining power.

Among the chief disadvantages of the individual worker in making a wage bargain are the following. Labor is a service and, therefore, similar in nature to a perishable commodity. Time spent in finding employment represents a loss of working hours and, hence, of wages. The proffered wage may be lower than the competitive rate of wages for a given type of work, but its refusal may mean unemployment. Loss of wages to the worker is frequently more serious than the loss of profits to his employer. The laborer has no great surplus of past savings on which he may draw in a protracted period of unemployment.

Another disadvantage of the unorganized worker is his inferior knowledge of general conditions of employment, as compared with that of the employer or with that of the salaried secretary of a labor organization. Additional disadvantages of the worker are his immobility and ignorance. He does not know where to go in order to better his condition. Moreover, it is not easy for the worker and his family to move quickly from place to place under the lure of a slight wage differential.

A final disadvantage of the worker is the frequent existence of understandings among large employers of labor as to wages and other condi-

tions of employment. A gentlemen's agreement may prevent them from competing actively for workers and thus forcing wages up to the natural or competitive level. Associations of employers have been very reluctant about "spoiling the labor market." There has been some very successful collective bargaining among employers.

4. Effectiveness of Collective Bargaining.—How far labor organizations can succeed in raising the real wages of labor in general is a controversial point of economics. Although collective bargaining for the purpose of raising wages is no longer regarded as conspiracy, it is not always as effective as is commonly supposed. Labor organizations are confronted with economic laws, as well as with political or statutory laws.

Theories of wages were discussed in Chap. VI. It will be remembered that the marginal productivity theory and the bargaining theory of wages were stressed. The wage paid for any type of labor may be regarded chiefly as the resultant of two forces, first, the natural scarcity of that type of labor relative to the demand for it, and, second, the relative strength of its bargaining power. Collective bargaining may be regarded as a very effective device by means of which labor has sought to overcome the numerous bargaining disadvantages of the single worker and to insure his payment in wages of the full marginal product of any type of labor.

It is also evident that a trade union of sufficient power can restrict the number of its members by a limitation of apprentices and thus create an artificial scarcity of that type of labor. By the use of such monopolistic power as the closed shop, which employs only union labor, and the closed union, in which the number of apprentices is rigorously restricted, powerful labor organizations can definitely limit the supply of a particular type of labor. Hence, it is possible to raise the wages of that type of highly organized labor in a manner similar to that in which certain industrial monopolies succeed in raising the prices of their products by an artificial restriction of the supply.

If the wages of a labor group are raised in such a manner, the frequent result is that the prices of the products into which that labor enters are, in turn, raised. Hence, the costs of living for other workers are increased. Their money wages must be advanced proportionately as the costs of living increase, if their real wages are to be maintained. Hence, it is contended that the whole movement is that of a vicious circle. As money wages go up, prices go up and real wages are not advanced.

It is true, however, that if the money wages of any one labor group are advanced more rapidly than the increase in the general price level, their real wages are greater than before. But the unorganized workers may not have enjoyed an increase in money wages proportionate to the increase in the costs of living. Hence, they may suffer a reduction in

real wages. Thus, it is also contended that collective bargaining merely benefits the organized groups at the expense of the unorganized.

Although some economic theorists question the ability of trade unions to raise the general level of real wages above the natural or competitive rate of wages, as fixed by the forces of supply and demand, it does not follow that collective bargaining is futile. By the utilization of certain monopolistic devices the wages of certain groups of workers may be increased. Many labor leaders, like ordinary business men, are interested in the economic welfare of their own groups rather than in a broad humanitarianism.

It is also possible to raise wages somewhat by collective bargaining without the creation of an artificial scarcity of a particular type of labor. Many labor leaders contend that collective bargaining on the part of the workers is necessitated by the bargaining disadvantages of the individual worker. Collective bargaining does not seek to raise wages above this natural or competitive level, but merely to prevent employers from taking advantage of the ignorance or the helplessness of their workers by paying them wages below this economic wage rate, as fixed at any given time by the natural forces of supply and demand for a given type of labor.

5. Practical Effects of Collective Bargaining on Wages.—In conclusion, let us turn to the argument from experience. It is true that the development of trade unionism since the Industrial Revolution has been accompanied by an increase not only of money wages but also of real wages for labor in general and for organized labor in particular. This relationship may not necessarily be a causal one, however, for the greater wages of labor today are due to other things, such as modern technology and an increased control over the forces of nature. Nevertheless, without the development of labor organizations and collective bargaining, it is very likely that labor might not have received so large a share of this greatly increased national income. Today, the economic tug of war, represented by the process of distribution, is between competitors of more nearly equal bargaining power.

The situation has been ably summed up as follows:

> The chief effects of the system of collective bargaining are: (1) it tends to level time wages; (2) to increase the average wage; (3) to establish a minimum wage, and to transfer competitive pressure among workers from wages to efficiency and skill. The "standard rate" fixed by unions through the use of collective bargaining is a minimum rate or "living wage."[1]

That labor organizations have been fairly successful in their two allied and primary objectives of collective bargaining may be seen from the following table which records the gains of union workers in the

[1] CARLTON, F. T., "History and Problems of Organized Labor," p. 130.

period from 1907 to 1921. It will be noted from the following indices of union wage rates and hours of labor that, although the hours of work per week fell almost 10 per cent, the wage rate per hour was so increased that full-time weekly earnings more than doubled. Although the increase in money wages and the decrease in hours were due to many causes, the significance of effective bargaining cannot be minimized. Although all labor has obtained increased money wages with decreased hours, the gains of unorganized labor have not been so great as those of the highly unionized workers.

UNION WAGE RATES AND HOURS OF LABOR[1]
(Index Numbers—1907 = 100)

Year	Rate per hour	Hours per week	Full-time wages per week
1907	100	100	100
1908	101	100	101
1909	102	99	102
1910	105	99	104
1911	107	98	105
1912	109	98	107
1913	111	97	109
1914	114	97	111
1915	115	97	112
1916	119	96	116
1917	127	96	123
1918	148	95	142
1919	172	92	162
1920	222	91	206
1921	229	92	211

[1] U. S. Bureau of Labor Statistics, "Wages and Hours of Labor," *Bulletin* 302.

6. Interpretations of Collective Bargaining.—Collective bargaining was defined as group rather than individual competition and as agreements between organized associations rather than between isolated individuals. It is difficult to be more specific without getting into controversial matters, such as just what practices and weapons are essential to effective collective bargaining.

As collective bargaining represents negotiations between groups instead of between individuals, it is imperative that both groups be organized effectively. Otherwise, the situation represents merely fictitious or one-sided collective bargaining. The situation may perhaps best be illustrated by the joint conferences and trade agreements between parties of nearly equal bargaining power. This aim is the reduction of industrial differences to peaceful discussion and the ultimate formation of a compromise which becomes the accepted usage of the industry or occupation.

It is very easy to agree on the existence of collective bargaining and, indeed, on its necessity. But to interpret collective bargaining in terms of various concrete practices is very difficult. Thus, the labor delegation withdrew from President Wilson's post-war conference between capital and labor, because of the failure of the conference to come out from behind platitudes in the matter of collective bargaining. The workers insisted that collective bargaining be defined more specifically and as inclusive of certain practices which labor regarded as essential to it. Although all members of the conference were willing to endorse the general principle of collective bargaining, the representatives of the employers were not willing to accept these specific interpretations of the labor members.

Organized labor has consistently and insistently attempted to inject such concepts as the closed shop and the walking delegate into the general expression of collective bargaining. It has been equally adamant in its refusal to regard employee representation and company unions as part of a program of collective bargaining. It is our present problem to analyze some practices of collective bargaining and to discover what is essential to effective collective bargaining.

7. Weapons of Collective Bargaining.—The various weapons of collective bargaining may be classified as those of the employer and those of the employee, as those of consumers and those of producers, as peaceful and militant practices, as radical and conservative weapons, as legal and illegal practices, as open and secret weapons, as economic and wasteful weapons, and, finally, as socially desirable and socially undesirable practices of collective bargaining.

Strikes are generally militant and uneconomic weapons of collective bargaining which are used by the employees organized as producers. They may or may not be legal. The union label is an open, peaceful, economic, socially desirable weapon of the employees organized as consumers. The blacklist is a secret but legal weapon of the employers. Sabotage is a secret, radical, uneconomic, and socially undesirable weapon of some labor organizations. Each of these practices and weapons of collective bargaining will be treated in turn.

8. Open and Closed Shop.—The open shop is one in which both union and non-union men may be employed. The closed shop is one in which only union men may be employed. It must be remembered, however, that there are also shops which are closed to union men, that is, in which the employer will openly or secretly employ only non-union men. Thus, certain employers have professed to maintain the open shop, but a close inspection reveals that union men are either not employed or are dismissed in preference to non-union men. The open shop which is free from any discrimination against union men is very rare. This is one of the strongest arguments against it.

The closed shop may be operated by either the open or closed union. In the closed shop with the open union the employer may hire whom he pleases, but if he does employ a non-union man the latter must join the union when he begins work. In the closed shop with the closed union the employer may employ only men who are members of unions. Management's power to discharge a workman is limited as well as its power to hire him. The causes of the discharge must be passed on by the union official, or the other workers will walk out. Again, efficient workers who lose their standing in the union must be discharged.

In some cases management actually performs some of the administrative work of the union. This is known as the check-off system. Employers maintain records and deduct the union dues and fines from the wages of their workers. These funds are subsequently turned over to union officials. The check-off system is common in the organized bituminous coal fields, where it works with remarkably little friction in administrative detail.

The closed shop with the closed union is a labor monopoly which is difficult to defend. It is an autocracy of labor which discriminates against capable workers who are not members of unions, entrance into which is oftimes difficult. The anti-union shop is also discriminatory, in that it forces workers to give up their right of union membership. There are some anti-union shops in which the employers are not only solicitous about the well-being of their employees, but also willing to treat with them. On the other hand, many non-union shops are openly or secretly hostile to the very principle of collective bargaining. In some cases a resort to the spy system is made by employers in order to eliminate any labor organizers or sympathizers.

9. Arguments for and against the Open Shop.—Since the period of the World War, associations of manufacturers and other employers' organizations have begun a national campaign in behalf of the open shop. Organized labor has been equally insistent on the closed shop. The literature of both sides has been propagandist rather than unbiased, and emotional rather than scientific. Any economic problem, however, has its two sides, and every program has its advantages as well as its disadvantages.

The advocates of the open shop indict the closed shop with being un-American, monopolistic, and unfair to both the employer and unorganized labor. It is sometimes charged that the public welfare is endangered by the closed shop which is classified with various forms of radicalism and often indicted as the cause of many existing economic ills.

The chief contention of employers is that the closed shop prevents them from running their own business without outside interference. Moreover, all workers are reduced to the dead level of mediocrity under the union control of output, wages, and working conditions. Again, the

unorganized workers are deprived of their "constitutional right of freedom of contract" to sell their labor as they see fit. Finally, the general public suffers in the form of high prices.

Organized labor replies that the open shop exists in name only and that most open shops are in reality anti-union shops. The movement in favor of the open shop is merely a disguised attack upon organized labor. It is also held that effective collective bargaining is dependent on the closed shop, and that without collective bargaining the exploitation of the worker would result.

The closed shop with tne open union is regarded by its advocates as democratic and not monopolistic. They further contend that it is strange that great monopolies of capital should dare to raise the charge of monopoly against the closed shop. If modern monopolistic business finds it necessary to standardize the quality of its product as well as its prices, why should not organized labor do the same for its services?

Many advocates of the closed shop justify its coercion on unorganized laborers to join unions. The non-union man who works beside a union man receives the benefits of collective bargaining in wages, hours, and working conditions. Why should he not be compelled to join the union and assume some of its burdens when he shares its benefits?

In the last place, no employer has an absolute right to run his business without interference. The employee, as well as the employer, and the laborer, as well as the capitalist, must share in the determination of conditions of industry. Industrial absolutism must give way to industrial democracy.

10. Walking Delegates.—The right of collective bargaining is interpreted by labor to include not only the closed shop but also the "walking delegate." These two issues are closely intertwined.

There are many employers who avow their sincere readiness to meet with any representatives chosen from among their own employees, but who refuse to have any dealings with individuals outside their own plants. They repudiate the professional labor leader who goes from place to place for the purpose of organizing unions and conducting strikes.

Labor leaders point out in reply that strike duty is merely one of the functions of labor leaders who sometimes settle rather than cause industrial conflicts. Workers are not sufficiently trained or informed to do this work for themselves. If employers and associations of employers can employ counsel and trained specialists, why should not employees exercise the same privilege?

It is also held that no employee would dare to organize his fellow employees for a strike or for advancing their claims against those of management. To do so would merely cultivate an immediate or a deferred dismissal. It is easy for an employer to find an excuse for dismissing an employee who has rendered himself obnoxious by his activities

in collective bargaining. Moreover, tacit agreements among employers may render it difficult for the discharged worker to obtain employment elsewhere. Again, the hope of advancement is often a sufficient temptation to induce the plant representative of the employees to sell out their interests to the employer.

11. Company Unions.—Company unions are organizations of the workers of one plant or business corporation. The employees select representatives to treat with their employer as to wages, hours, and general working conditions. Company unions are not a part of the organized labor movement, and a description of their plans of organization will be given in Chap. XVIII, which deals with the general problem of employee representation.

Company unions are generally superimposed from above rather than a general growth from below, as in the case of trade unionism. Company unions have generally been organized on the initiative of the employer, the management, or the personnel department of a large organization. They are frequently accompanied by profit-sharing schemes, welfare projects, and pension systems. The general aims of company unions are the development of a closer cooperation between men and management and the production of industrial good will as a valuable business asset.

Company unions have developed apart from and often in conflict with trade unions. In most cases members of company unions are not members of trade unions. In some cases they are actually prevented from becoming members of trade unions while in the employment of the firm which maintains such a company union. Only in rare cases, such as in the plan of the Philadelphia Rapid Transit Company, is the door left open to an affiliation with organized labor if the great majority of the employees so desire. In many cases company unions are open-shop organizations, which fact may mean that they are frankly or secretly hostile to members of trade unions. Consequently, company unions have been indicted by labor leaders as mere paper unions or as sham organizations of labor which are under the control of the employer rather than under that of the employees.

Company unions cannot be regarded as collective bargaining in the commonly accepted sense of the term. Although collective bargaining may be interpreted as inclusive of all group negotiations, such a broad definition means very little. The first essential of effective collective bargaining is the right to belong to a trade union, and to secure the support and cooperation of the general organized labor movement.

Effective collective bargaining also involves the employment of walking delegates and the professional labor leader rather than the utilization of an employee of the plant. The representatives of the employees in a company union may be bribed by the prospect of promotion to sell out the interests of their fellow workers or they may be

prevented by the possibility of a discharge from pressing too far the demands of their fellow employees. Unlike Oliver Twist, the employee representative cannot offend management by daring to ask for more wages for himself and his fellow industrial orphans.

Finally, the members and delegates of company unions are forced to fight their industrial battles without such weapons as the strike or the threat to strike. The employer may be fair, reasonable, and even sympathetic, but, if not, there is no possibility of coercing him by any of the common and effective weapons of industrial warfare. For these reasons, as well as others of less importance, company unions cannot be regarded as part of collective bargaining by the workers.

12. "Yellow-dog Contracts."—Although the workman's power to strike is somewhat limited, as will be seen in the following chapter, the employer's right to discharge is almost absolute. Although it may be found inexpedient to exercise this power of discharge in an autocratic fashion, the employer is generally within his legal right in discharging whom he pleases, as well as in hiring whom he pleases. In other words, management may refuse to hire a union worker and may discharge a union worker merely because of his membership in a labor organization.

In order to prevent the employment of union workers, some employers question each worker before employment and secure from him a written statement that he is not a union member. In order to guard against his subsequent affiliation with a trade union, management has sometimes made a prior condition of employment the signing of an agreement by every prospective worker that he will not become a member of a trade union or of other specified labor organizations as long as he remains in that employment. Such agreements are frequently stigmatized as "yellow-dog" contracts, for they are bitterly opposed by all organized labor.

The Interborough Rapid Transit Company of New York, for illustration, maintains a company union known as the "Brotherhood of Interborough Rapid Transit Company Employees." Not only must each new employee join this union but, also, he must sign a contract to the effect that he will not belong to a trade union or any similar labor organization while in this employment. Although company unions are sometimes permitted to compete with trade unions for membership, they are often forced on the employees in such a fashion by the imposition of "yellow-dog" contracts.

A number of states have passed laws which prohibit employers from denying to their employees the right of membership in trade unions. Employers are sometimes forbidden by law from discharging those employees who belong to labor organizations merely because of their union membership. However, much of such legislation is unconstitutional or unenforceable.

It is a principle of common law that legal action is possible against a third person who persuades one of the two parties to a contract to break this agreement without justification or legal excuse. It has also been held by the Supreme Court of the United States that it is illegal to unionize or to attempt to unionize workers under voluntary contracts giving up the right of union membership as a condition of employment.

It was further held by the Supreme Court[1] that an injunction might be issued against all attempts to organize workers who had signed "voluntary agreements" not to join labor organizations while in their present employments. Thus, "yellow-dog" contracts have been regarded as legal and the right of injunction remains against any outside attempt to unionize the signers of such agreements.

13. Blacklists.—The blacklist has sometimes been defined as a boycott of employers against the labor commodity of their employees. It is a memorandum of the names of employees who have made themselves obnoxious to their employers because of trade-union activities or other labor agitation. It is very easy for an association of employers to prepare and to circulate among themselves a list of employees who have taken an active part in labor organizations and in industrial disputes. A tacit agreement among employers prevents the future employment of such workers, even by other employers in other industries and in other places.

Employers sometimes maintain their own employment bureaus and prepare whitelists as well as blacklists of employees. The whitelist enumerates those employees who are faithful and tractable as well as efficient workers. Such workers are given preference in employment. The hope of whitelisting, as well as the fear of blacklisting, may be a very effective deterrent to participation in labor agitation and industrial disputes on the part of organized and unorganized employees.

The whitelist is a negative boycott of employers which corresponds to the union label and the fair list of the union. The fair list is an enumeration by organized labor of those firms whose working conditions are favorable and who maintain the closed shop. Their patronage is therefore requested by all workers.

Although nearly all states have attempted to legislate against blacklisting, such laws have accomplished little. It would seem that this weapon of management is within the law. The old doctrine of conspiracy so frequently used against labor organizations, has not been found to apply against blacklisting by employers.

Overzealous legislation against blacklisting has been declared unconstitutional. Thus, a Federal statute forbidding an employer engaged in interstate commerce from discharging an employee because of membership in a union was declared unconstitutional. Moreover, a Federal

[1] *Hitchman Coal and Coke Company vs. Mitchell*, 245 U. S. 229, 38 Supreme Court 65, 1917.

court ruled that an employer had the right to keep a record of men discharged for union membership and that he might lawfully invite its inspection by other employers.[1] In the last place, it should be remembered that any legal prohibition against blacklisting would be difficult to enforce because of the possibility of secret and informal understandings.

14. Union Label.—The use of the union label represents an attempt to organize workers as consumers, just as the closed shop represents an attempt to organize them as producers. The fundamental aims are similar.

Consumers' leagues maintain lists of firms which manufacture and sell their products under favorable working conditions, such as the absence of child labor or excessive hours of employment. The aims of such organizations are excellent, but it is difficult to secure publicity, for the average consumer will not consult a list of approved firms before making purchases. Some distinguishing mark placed conspicuously upon the salable commodity is far more effective.

The union label is a mark which is placed upon goods manufactured under union conditions. It generally means that the employer has conformed to union standards in the production of a given article. The union label implies a living wage, reasonable hours, and the absence of sweating, child labor, and convict labor.

The union label originated among the cigar makers of California in 1874 as a protest against the employment of cheap Chinese labor in this industry. The white label formerly attached to cigar boxes signified the use of white labor, but it gradually came to mean union labor. The cigar makers' union label was followed by one for hatters, one for garment workers, and, finally, by one for various other trade unions.

The American Federation of Labor has striven to give publicity to these labels and to educate its members in the consumption of union-made goods. It publishes regularly these various insignia in its periodicals. The actual and potential effectiveness of such a weapon among the millions of organized workers and their families is easy to understand. The use of the union label has sometimes been regarded as peaceful collective bargaining as contrasted with the militant methods of strikes and picketing.

The use of the union label has spread from the United States to Canada, Great Britain, and Australasia. The courts have generally upheld its legality and pointed out its similarity to trade marks. In spite of the cry of class legislation a number of states have passed laws designed to give legal sanction to the use of union labels.

15. Restriction of Output.—Because of the fatiguing nature of modern industry, organized labor has not only demanded a shorter day but also has made recourse to limitation of output. The latter has been defended

[1] *Boyer vs. Western Union*, 124 Federal 246, 1903.

as a counter weapon to the employer's attempt to speed up the workers. Machinery may be geared to such a speed that the worker may be taxed continuously to his greatest exertion. Moreover, pace setting may be done by encouraging certain employees to set a fast pace. Other workers on the same machine or on the same job are urged to similarly great production under the threat of discharge or a cut in wages. The most flagrant abuses of pace setting are found in the sweated industries.

Organized labor has replied to pace setting by deliberately limiting the number of units of product to be completed within a given amount of time. Thus, the laying of a certain number of bricks and no more may be considered a fair day's work in bricklaying by union workers. Unorganized and unskilled workers also come to a tacit understanding among themselves about the limitation of output. A new worker soon learns that he is regarded with suspicion by his fellow workers if he works so rapidly that he threatens to "kill the job."

Restriction of output has been regarded as a leveling down process as compared with the leveling up process of pace setting. In the first case the output of the poor worker is taken as the standard of labor, and in the second case the pace of the rapid worker is taken as this standard by the employer.

The restriction of output by the workers has two chief objectives. The first aim is the protection of the worker's health and strength against the dangerous and fatiguing character of modern industry. There is much to be said in favor of a reasonable limitation of output as a necessary weapon of defense of labor against speeding up beyond the average human capacity.

The second aim of restriction of output is less justifiable, for it arises from the common fallacy of making work. It is thought that the rapid worker is lessening too quickly the total amount of work, and that the limitation of output will spread employment over a longer period of time and, therefore, create additional employment. Both the introduction of machinery and the practice of pace setting, which is often associated with it, are viewed by the workers as decreasing the "lump of labor."

The restriction of output only apparently creates additional employment. Although at any given time and within any given occupation the amount of work is definitely limited, this attempt to create employment by a restriction of output is a selfish and shortsighted policy. Restriction of output tends to raise the price of the product, to increase the costs of living, and to lower the real wages of all workers. At best, one group of workers may profit, but at the expense of those who do not practice limitation of output. If all workers practice it, the national income is decreased and real wages in general suffer accordingly.

In conclusion, it may be said that both very rapid pace setting on the part of employers and an arbitrary restriction of output on the part

of the employees are mistaken economic policies. Human capacities differ so greatly that any fixed pace or output, like any standard wage, may work individual injustices.

16. Limitation of Apprentices.—Limitation of apprentices is a monopolistic attempt to create an artificial scarcity in the supply of a given type of labor, just as a restriction of output may create an artificial scarcity of a given type of commodity or service. It will be recalled that monopoly implies sufficient control over the supply of a commodity or service to regulate its price.

Monopolistic control over the supply and, hence, over the prices of commodities has long been practiced by capitalists. Monopolistic control over the supply of certain types of labor and, hence, a regulation of wages, has also been attempted by the workers. Both the limitation of apprentices and the restriction of output are as old as the guilds of the Middle Ages.

In an age of craftsmanship the period of apprenticeship was a time of trade instruction under the personal supervision of the master worker. The advent of the machine meant the replacement of the skilled craftsman by the semi-skilled machine operator. The period of apprenticeship is now one of personal instruction only in those occupations which continue to be done by hand in the small shop.

In most large industries of today the original concept of apprenticeship is a mere fiction. Employers or their foremen in modern factories have little time, ability, or inclination to teach the new boys employed their trades. Where the machine has displaced the craftsman, the machine helper has replaced the former apprentice. The terms "apprentice" and "journeyman" in many occupations today have become mere units of classification between the older and better paid workers and the younger and less experienced ones. The journeyman is not a skilled worker nor is the apprentice learning a trade.

Limitation of apprentices is defended on two grounds; first, the improvement in the character of the work and, second, the raising of wages. In spite of the prevalence of the machine, a number of occupations are still done by hand. Such work naturally requires both skill and training. Boys cannot effectively learn a trade if there are too many apprentices to every journeyman. Where organized labor is sufficiently strong to express itself on this point, a certain ratio of journeymen to apprentices is insisted on.

Moreover, if a high quality of workmanship is the desired objective, a relatively long period of apprenticeship is necessary. Although organized labor has been more interested in the limitation of apprentices than in a longer period of apprenticeship, the highly skilled trades have adhered to this latter aim.

The result of both a limitation of apprentices and a lengthening of apprenticeship is the creation of a relative scarcity of a given type of labor and the raising of its wages. In many cases the raising of wages rather than an improvement in the character of the work has been the chief objective. In order to be effective, however, the limitation of apprentices must be accompanied by the general acceptance within an industry of the closed shop, that is, one in which only union workers may be employed.

17. Summary.—The disadvantages of the individual workers under the present wage system gave rise to modern collective bargaining. The century following the Industrial Revolution witnessed the growth of various kinds of labor organizations. Their principal objectives were the raising of wages and the shortening of the working hours rather than an improvement in the general working conditions. A third function of trade unionism has been the maintenance of its power of collective bargaining. In addition to these primary functions of labor organizations, they also possess numerous secondary functions, such as those of education, social intercourse, fraternal benefits, unemployment relief, and strike benefits.

Collective bargaining has been defined merely as group negotiations rather than those of isolated individuals. Organized labor, however, insists that the collective bargaining of the workers includes the closed shop, the walking delegate, and numerous other weapons of organized labor.

The open shop is one in which both union and non-union men may be employed. The closed shop is one in which only union workers may be employed. Although management has claimed that the open shop is democratic, in practice it has frequently been anti-union. Trade unions regard the closed shop as essential to the preservation of their organization and of the right of collective bargaining.

Company unions are associations of the employees of a given plant. The organization follows the lines of the business organization rather than of the craft or industry. Organized labor objects to company unions on the ground that they are subservient to management. The right to employ an outsider or a walking delegate is regarded as essential to effective collective bargaining.

"Yellow-dog" contracts are "voluntary agreements" of the workers not to join a union while in their present employment. Blacklists represent another weapon of the employers who may compile and circulate the names of those workers who have been active in labor disputes. Both "yellow-dog" contracts and blacklisting have been upheld as legal by the courts.

Counter weapons of the workers are their fair lists of employers who are favorable to labor. Union labels may also be placed on the products

of the closed shop in which good working conditions and union hours and wages prevail. The union label is an attempt to organize the workers as consumers.

Trade unions can raise the wages of their members by such monopoly practices as the limitation of apprentices. This creates an artificial scarcity in the supply of one type of labor and, hence, raises its wages. Restriction of output is an attempt to increase the volume of employment and to lessen the strain of industry.

Collective bargaining has often raised money wages rather than real wages, and the wages of organized groups rather than those of unorganized groups. On the other hand, it has limited the field of competition among various workers and secured for them their full economic rate of wages. Thus, it has prevented exploitation of the workers because of their bargaining disadvantages. Collective bargaining may be viewed as an attempt to standardize labor and to balance the two parties to the labor contract.

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Questions for Discussion

1. Differentiate between the primary and secondary objectives of labor organizations.
2. What are some of the disadvantages of individual bargaining?
3. What do you understand by collective bargaining?
4. What practices do you regard as essential to it? Why?
5. What are company unions and why do they not represent effective collective bargaining?
6. What is a "yellow-dog" contract?
7. Make out a case for or against the open shop.
8. Contrast the blacklist, the whitelist, and the fair list.
9. How does labor justify restriction of output? Criticize.
10. How does labor justify limitation of apprentices? Criticize.

Topics for Investigation

1. Powers, duties, accomplishments, and dangers of walking delegates.
2. "Yellow-dog" contracts of certain business organizations.
3. The open-shop program of employers' associations.
4. History and present status of the union label.
5. Restriction of output in certain specific occupations.
6. Limitation of apprentices in certain specific occupations.

CHAPTER XV

LABOR DISPUTES AND THE WEAPONS OF LAST RESORT

PROBLEMS OF INDUSTRIAL CONFLICT

1. Development of Strikes.—Although strikes are associated with modern industrialism, it has been said that their forerunners were the slave insurrections of ancient Rome and the peasants' revolts of medieval Europe. Even before the advent of modern capitalism there existed class struggle along economic lines. But strikes in the strict sense of the word did not exist until the development of capitalism and the wage system. Nevertheless, they are older than modern industrialism. References to strikes among the journeymen and hired craftsmen may be found in the chronicles of the fourteenth, fifteenth, and sixteenth centuries.

The first recorded strike in America was that of the journeymen bakers of New York City in 1741 for increased wages. The bakers were tried and convicted of conspiracy, but no record remains of a sentence passed upon them. Other sporadic illustrations of local strikes may be found in the closing years of the eighteenth century and the opening years of the nineteenth century. During the period of rising prices before the panic of 1837 a relatively large number of strikes occurred.

It was not until after the Civil War, however, that the problem of strikes assumed a national aspect. The first national labor dispute in the United States was the railway strike of 1877. Although the chief disturbances centered about Pittsburgh, riots were general and interstate commerce was crippled. Considerable property was destroyed and a resort was finally made to the state militia.

2. Extent of Strikes.—Prior to 1881, statistics of industrial disputes were very incomplete. From 1881 to 1905, however, the Bureau of Labor Statistics attempted to compile information as to strikes and lockouts. During this quarter of a century there occurred 36,757 strikes and 1,546 lockouts, or an annual average of between one and two thousand labor disturbances.[1]

The average length of these strikes per establishment was 25 days and of lockouts 85 days. Approximately 200,000 establishments and 7,000,000 workers were affected. More than half of these strikes occurred in the great industrial area represented by Massachusetts, New York,

[1] *Twenty-first Annual Report* of U. S. Commissioner of Labor.

Pennsylvania, Ohio, and Illinois. Peak years were 1894, the year of the Pullman strike, and 1902, the year of the anthracite miners' strike.

The World War and the period of reconstruction which immediately followed it were characterized by a number of strikes. It will be remembered that this period was one of inflation and rapidly rising prices. In the two years of 1917 and 1918 the total number[1] of strikes was 7,572, or about one-fifth as many as in the entire period from 1881 to 1905. For the period from 1916 to 1921,[1] inclusive, there were 20,062 strikes or a yearly average of over 3,000. This yearly average is about twice as high as that for the period from 1881 to 1905. The number and extent of strikes from 1916 to 1924 may be seen from the following table.

LABOR DISPUTES AND EMPLOYERS INVOLVED 1916 TO 1924[1]

Year	Total number of disputes reported	Number of disputes in which number of employees was reported	Employees involved	Average number of employees per dispute
1916	3,789	2,667	1,599,917	600
1917	4,450	2,325	1,227,254	528
1918	3,353	2,151	1,239,989	576
1919	3,577	2,612	4,154,733	1,591
1920	3,299	2,114	1,441,381	682
1921	2,382	1,782	1,098,347	616
1922	1,080	826	1,607,894	1,865
1923	1,491	1,117	743,569	666
1924	1,010	541	414,663	766

[1] U. S. Bureau of Labor Statistics, *Monthly Labor Review*, June, August, November, 1924, and February, 1925.

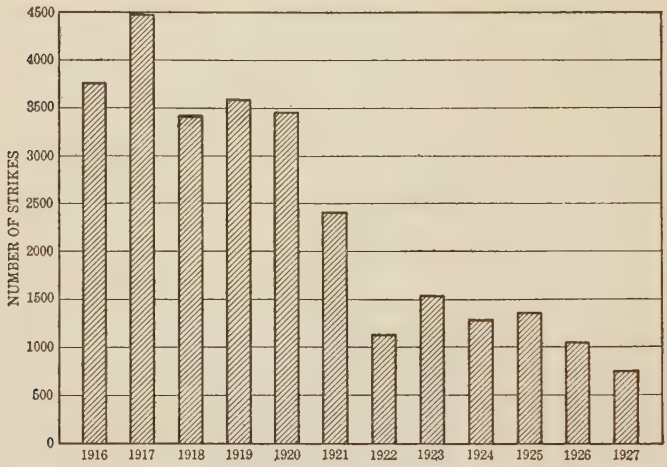
Although the period of the World War and the following 2 or 3 years saw a great increase in the number of strikes, recent years have shown a decided decrease in the number of these industrial disturbances, as recorded by the United States Bureau of Labor Statistics. Thus, in 1921 there were only somewhat over 2,000 strikes, as compared with over 3,000 in each of the 5 preceding years (in 1917 over 4,000). In 1922 there were only slightly over 1,000 strikes, in 1923, 1,500 strikes and in 1924, only 1,000 strikes.

In 1925 there was a slight increase, but in 1926 a decrease and in 1927 a still further decrease in the number of strikes. The annual number of these labor disturbances has decreased from a level of slightly over 1,000 in 1922 to well under 1,000 in 1927. Although there are many causes for this recent decrease in the number of strikes, the significance of the recent stability of the general price level cannot be ignored. The

[1] *Monthly Labor Review*, May, 1922.

relative stability of the labor situation within the past few years may be seen from the following chart.

Chart 39.—Recent Stability of Labor Situation



Reproduced by permission, Cambridge Associates, Boston. "Figures of U. S. Bureau of Labor Statistics."

3. Nature and Kinds of Strikes.—The United States Bureau of Labor has defined a strike as "a concerted withdrawal from work by a part or all of the employees of an establishment, or several establishments, to enforce a demand on the part of the employees." The counter weapon of the employer is the lockout. Both are manifestations of industrial unrest and represent conflict rather than cooperation.

The causes of strikes and lockouts are similar, and the result is the same, namely, a cessation of work. In the former case the initiative lies with the employees and in the latter case with the employer. This means very little, for employers can create conditions which result in strikes and employees can create conditions which result in lockouts. A scientific analysis of the causes of both international and industrial warfare requires more knowledge than merely which party to the conflict fired the first gun.

Strikes may be either positive or negative. They are said to be positive if the workers are making demands for improved conditions of labor, but negative when they are striving merely to maintain existing standards. Thus, the Massachusetts Bureau of Labor differentiates between attack strikes and defense strikes.

Strikes may be classified according to their extent, as well as according to their purpose. Thus, there are local, national and international strikes. Local strikes are those which are confined to a particular plant

or plants in a given occupation and within a small area. National strikes affect an entire industry and are operative throughout the country. Illustrations are the coal and railroad strikes. An international strike, as the name implies, is not confined within one national boundary. International strikes are relatively rare, although the effects of any large strike may be international.

The general strike involves the cessation of work in all industries. Such a drastic measure can be explained only in terms of such far-reaching objectives as the overthrow of the existing economic system. The sympathetic strike is the cessation of work by employees in other industries than the one in which the strike originated. It is apt to be unsuccessful and is rarely used by the trade unions belonging to the American Federation of Labor. Fellow workers in other industries can cooperate with the strikers more effectively as consumers than as producers. A sympathetic boycott is generally more practical than a sympathetic strike.

4. Causes of Strikes.—Industrial disturbances, like international conflicts, have a number of causes. These are frequently so blended that it is difficult to isolate a single cause and to distinguish between immediate and remote causes. Some leading causes of industrial unrest have been indicated in our discussion of the demands of organized labor.

The chief causes of strikes are to be found in the demands for increased wages, for a reduction in the number of hours of work, and for a recognition of the union and union rules. The chief cause of over half the strikes from 1881 to 1905 was a demand for higher wages or a protest against lower wages. Although still the chief cause of industrial disputes, the wage question seems to be declining in relative importance as compared with purely union causes of strikes.

The statistics of strikes, except for very recent years, give little ground for the feeling that they are on the decrease. It may be that the recent decrease in the number of strikes marks the beginning of a new era in industrial relations rather than merely a short-run movement. But this period is too recent and too brief to afford sufficient ground for great optimism in this respect.

It is a controversial question as to whether industrial disputes are to be associated more with periods of prosperity or more with periods of depression. In the former case strikes are probably more numerous, but in the latter case they are apt to be more serious and protracted. Strikes are symptoms of industrial unrest, which is most acute in periods of economic readjustment, whether the period is one of business prosperity or one of economic depression.

The growing strength of organized labor is making the strike a more formidable device of collective bargaining. It is an economic weapon, the continued use of which has serious consequences, not only to both

labor and capital but also to the general public. Recent strikes or threats to strike in key industries, such as the coal mines and the railroads, have made the problem one of great national importance.

Causes of strikes must be studied and an attempt made to avert them as well as to regulate them by the elimination of illegal methods and unsocial practices. Strikes are militant protests against existing industrial conditions, just as a high rate of labor turnover represents a passive and unorganized protest. In their final analyses, strikes are dangerous symptoms of industrial unrest in the same way that boils are symptoms of a disordered system. Something more than mere alleviation or temporary relief is necessary in both cases.

5. Success of Strikes.—The success of a strike is difficult to measure. There are indirect as well as direct results. Moreover, any resultant gains must be balanced against the losses sustained during a strike.

In periods of industrial prosperity the workers are more successful than employers, while in periods of business depression the employers are more successful. In 1917, for example, employees won twice as many strikes as employers; while in 1921 the ratio was practically reversed. The success of a strike is also conditioned by the strength of the union and the state of public opinion.

It has been contended that the proportion of successful strikes has been decreasing. This has been explained in terms of an increasing centralization in the control of capital. Such generalizations, however, are not always true, except for a rather short period of time. Moreover, even if true, the complete explanation of the situation is more complex than the single reason advanced.

The following table attempts to give the results of a number of labor disputes from 1918 to 1924. The situation in periods of rising prices and business activity is very different from that in periods of falling prices and business depression.

Results of Labor Disputes in Each Year, 1918 to 1924[1]

Result	1918	1919	1920	1921	1922	1923	1924
In favor of employers....	465	680	650	701	242	356	200
In favor of employees...	627	583	397	256	237	364	272
Compromised.....	691	797	448	291	104	167	110
Employees returned, pending arbitration....	204	50	61	80	16	46	36
Not reported.....	211	57	204	198	112	159	111

[1] U. S. Bureau of Labor Statistics, *Monthly Labor Review*, June, August, November, 1924, and February, 1925. First nine months only of 1924.

6. Legality of Strikes.—The legality of trade unions and the right of labor to organize are merely historical questions. Nevertheless,

many methods of collective bargaining and numerous practices of labor organizations are of doubtful legality.

The strike as a collective cessation of work in a peaceful manner is recognized as legal, where the aim is an improvement in the wages, hours, and working conditions of the employees. On the other hand, where the primary purpose of the strike is to injure the employer or his non-union workers, it is generally regarded as illegal. In other words, the intent of the strike must be carefully considered. Moreover, the manner of conducting a strike is also important. In order to be legal, in most states strikes must be free from the elements of coercion and intimidation.

It easily can be seen that there is a contradiction or paradox involved in such a statement of the legality of this strike. This difficulty cannot be avoided, for there is necessarily a conflict in all labor disputes, not only of economic interests but also of legal rights. Indeed, the courts themselves are neither clear nor altogether consistent in the matter of the legality of strikes. It would seem that the workers possess the right to quit work collectively when the purpose of the strike is an improvement of working or living conditions. But such an act is bound to be one of coercion, if not of actual intimidation. Hence, it conflicts with the employer's legal right to do business and to have free and unrestricted access to the labor and commodity markets.

The laws on the legality of strikes, as well as their judicial interpretation, vary greatly from state to state. Many types of strikes were forbidden in Kansas when the compulsory arbitration of industrial disputes was in vogue. On the other hand, all strikes are legal in California, in which state the problem involved is merely the legality of the methods used in conducting a strike. The California law merely insists on the absence of violence, intimidation, and coercion.

The legality of the strike depends on the industry as well as on the state in which it occurs. There is a growing feeling against strikes on the part of public employees. Thus, the strike of the Boston policemen in 1919 was universally condemned. A strike of the railroad workers likewise would paralyze the industrial life of the nation and cause untold suffering. It would seem that the essential nature of an industry must limit the right to strike rather than merely increase its potential effectiveness. Such was the thought behind the Kansas law.

Although strikes may be illegal it is difficult to prevent them. An individual possesses the right to quit work, and to compel him to continue his employment against his will would be involuntary servitude. But inducing others to quit work is a very different matter, for the law may condemn such collective or conspiring action. Such inducing of the workers or agreeing with other workers to stop work is difficult to prove, however, for the cessation of labor may appear to be as spontaneous as it is sudden. In such cases the courts have decided that the chief

responsibility is assumed to fall on the agents or officers of the labor organization.

In Massachusetts the courts have held as illegal strikes which attempt to secure the discharge of non-union workers or members of a rival labor organization, to secure the removal of objectionable foremen, or to secure the reenstatement of discharged employees. All sympathetic strikes have, likewise, been held as illegal in that state. In Connecticut, New Hampshire, and Vermont strikes against non-unionism in various forms have, also, been regarded by the courts as illegal.

In New Jersey closed-shop strikes and strikes against the use of non-union materials have been regarded as illegal. The courts of Pennsylvania have held as illegal strikes growing out of jurisdictional disputes, the closed-shop issue, and against the use of non-union materials.

Although legislative statutes and court decisions are very divergent in the various states of the Union, it would seem that there are some broad general principles of agreement. It would seem that strikes solely and directly involving wages, hours, and physical conditions of work are generally regarded as legal. On the other hand, strikes to gain the closed shop, strikes to eliminate the use of non-union materials, and sympathetic strikes have frequently been regarded as illegal.

7. Strike Breaking and Picketing.—Although a strike may be legal in its intent, the methods involved or the weapons used in its conduct may be illegal. Thus, violence and unlawful measures are sometimes resorted to in order to terrorize the employer and those employees who remain at work. Even more serious danger arises when the employer, in turn, endeavors to keep his plant running by filling the vacant places of the strikers with non-union workers.

Strike breakers are groups of laborers who may be rushed from place to place as occasion demands. These industrial mercenaries are composed chiefly of unskilled and casual laborers. They include the ignorant, the reckless, and the indifferent elements in the laboring population. Organized labor has attached the stigma of "scab" to strike breakers. They are hated more intensely than the employers themselves, to whom they are regarded as having sold out. Strike breakers are viewed as taking bread out of the mouths of organized labor and must frequently work under the protection of the guns of the plant guards.

Picketing is an attempt of strikers to persuade employees remaining at work to join the strike. Pickets are placed near the entrances and exits of the plant, where they attempt to dissuade the employees from continuing at work. Picketing may extend from peaceful persuasion to threats of violence and intimidation. It may go from the borders of the plant into the homes of the workers. The "scab" may find it difficult to buy food and be subjected to numerous other annoyances. He may find his home damaged by some unseen hand, or an unexpected

missle thrown at his own head. The danger lies not so much in picketing itself as in the violence growing out of it.

The Trades Disputes Act of 1906 legalized peaceful picketing in Great Britain. In the United States peaceful picketing has likewise been held to be legal. This view was confirmed by the Clayton Act of 1914. On the other hand, intimidation and coercion have been condemned. Peaceful picketing without these attendant evils is very rare. Consequently, the courts have found it necessary to define just what picketing may include.

In December, 1921, Chief Justice Taft gave out the most complete statement as yet issued by the Supreme Court of the United States on the subject of picketing. It was pointed out that there are limits beyond which even persuasion may not go without violating the rights of others. "Persistence, importunity, following, and dogging become unjustifiable annoyance and obstruction which is likely to savor of intimidation." The number of pickets that might be stationed at each point of ingress or egress was limited to one. The worker must be approached singly and not collectively in order for the element of coercion to be absent. "Appeals should not be abusive, libelous, or threatening." This decision of Chief Justice Taft was viewed by organized labor as destroying the effectiveness of picketing.[1]

The laws and judicial decisions of the individual states on picketing are as varied as those on the subject of strikes. In California where both the strike and the boycott are legal, the courts have condemned the entire practice of picketing as intimidation. Several other states have also passed laws which make picketing illegal. The thought behind such legislation and judicial decisions is that peaceful picketing is impossible.

8. Nature and Types of Boycotts.—A boycott is the organized refusal of a number of persons to purchase goods or services from an individual or corporate producer. It has sometimes been used by the public at large as a protest against high prices and monopolies. It has commonly been used by groups of workers and trade unions in order to bring a recalcitrant employer to terms by checking his sales and, hence, his profits.

The boycott, as contrasted with the union label, is a negative rather than a positive weapon of organized labor. They are similar in that both represent attempts to organize the workers as consumers rather than as producers.

The simple or primary boycott is a refusal by members of a given union, or by a particular group of employees, to buy an article produced by their employers who are, in the judgment of their employees, unfair

[1] *American Steel Foundries vs. Tri-City Central Trades Council*, 257 U. S. 184, 42 Supreme Court 72. See also *Truax vs. Corrigan*, 257 U. S. 312, 42 Supreme Court 124.

to union labor. The secondary or compound boycott is one which involves other employees or trade unionists than those directly interested in the particular labor dispute. When the members of a union seek to extend the boycott from their own membership to the general public and to persuade or coerce a third party into refusing to buy the product of the obnoxious firm, the primary boycott becomes a secondary boycott. This distinction is difficult to maintain, however, for the boycott spreads gradually as it expands from one labor group to others throughout the entire community.

The success of a boycott, like that of a strike, depends on the strength of the particular union and also on the general solidarity of all organized labor. Both strikes and boycotts may involve disinterested individuals and cause great general hardship and financial loss. In a recent street-car strike, for illustration, storekeepers were advised not to sell to individuals who patronized the cars. Thus, the boycott and the strike went on simultaneously.

Other famous and effective boycotts were those directed some years ago against the products of the Bucks Stove and Range Company and the Loewe Hat Company. In strong labor communities stores were forced to discontinue the keeping in stock of any of the products of these manufacturers. Not to comply with this temporary interdict of organized labor meant the loss of general patronage.

The boycott may be used by the workers as producers as well as by the workers as consumers. Thus, union workers in one place may refuse to work on the non-union products which have been received from another plant in which the open shop prevails. In some cases such a boycott involves an interference with interstate commerce and has been viewed as a combination in restraint of trade. Thus, an injunction was successfully sought a few years ago by the Federal government under the Sherman Act against certain California building contractors and dealers who combined to limit sales of materials to those employers who pursued an open-shop policy.[1]

9. Legal Status of Boycotts.—The legal status of the boycott is somewhat controversial, but it is more definitely fixed than many other practices of organized labor. Under the common law the legality of a boycott, like the legality of a strike, depends largely on its intent. In the absence of any Federal legislation on the subject, there came into existence a large number of conflicting state laws. Federal courts as well as state courts, however, consistently have ruled that boycotts are illegal if there exists a malicious attempt to injure any one.

It has also been held that boycotts, in order to be effective, necessitate the coercion of third parties. Therefore, secondary boycotts may be conspiracies which limit the constitutional guarantees to citizens of

[1] *Industrial Association vs. United States*, 268 U. S. 64, 45 Supreme Court 403, 1925.

life, liberty, and property. Again, there exists a difference between an individual who refuses to patronize a given firm and a group of individuals who organize to accomplish this objective collectively. The power to harm is greater and the element of conspiracy may be present in such collective action, especially in the form of a secondary boycott.

If free from malicious intent, from violence or threats of violence, and from the attempt to coerce third parties, the boycott has generally been viewed as legal. Such a boycott, however, is as rare as "civilized warfare." The only effective boycott is the secondary boycott. But although the primary boycott has generally been viewed by the courts as legal, the secondary boycott has not been so regarded.

Boycotts have also been viewed as an interference with interstate commerce. The passage of the Sherman Act of 1890 meant that boycotts might be indicted as combinations in restraint of trade. Such was the ruling in the famous Danbury Hatters case of 1908 in which the courts awarded the Loewe Hat Company triple damages as provided by the law.[1] As a result of this decision the American Federation of Labor felt it necessary to discontinue its "We Don't Patronize" list in its official organ, for fear that such a list might be construed as an illegal boycott or a combination in restraint of trade.

The Clayton Act of 1914 declared that labor unions, as such, should not be viewed as violations of the Sherman Act, although the right of injunction remained against threatened damage by a violation of the anti-trust laws through unfair practices. Boycotts were permissible if carried on by peaceful and lawful methods, and no injunction should be issued against them. They were not to be considered violations of the law whether done singly or collectively.

It remained for the courts to decide whether the Clayton Act had changed materially the legal status of boycotts. In 1921, the United States Supreme Court rendered an important decision[2] in the case of the Duplex Printing Press Company. It held that labor unions were not relieved of liability where they went outside their normal activity and committed acts violating other laws. Moreover, boycotting by individuals other than those directly concerned in the dispute and especially the inducing of others to boycott was held to be unlawful. The right of injunction against these activities was sustained. Thus, it would seem that the secondary boycott remains illegal, and that the Clayton Act has not materially changed its legal status.

Another interesting case was that of the Bedford stone cutters passed on by the Supreme Court in 1927.[3] An injunction had been

[1] *Loewe vs. Lawler*, 208 U. S. 274, Supreme Court 301, 1908.

[2] *Duplex Printing Company vs. Derring*, 254 U. S. 443, 41 Supreme Court 172, 1921.

[3] *Bedford Cut Stone Company vs. Journeymen Stone Cutters' Association*, 274 U. S. 37, 47, Supreme Court 522, 1927.

issued against the General Stone-cutters' Union with local branches in many states, restraining it from ordering its members not to work on stone produced by the Bedford Cut Stone Company. Although this boycott was a peaceful one, the opinion of the court was that the restraint imposed by the union was unlawful under the Sherman Act. The precedent of the Duplex case was cited by the court in its contention that boycotts had not been made immune by the passage of the Clayton Act.

10. Injunctions and Their Use in Labor Disputes.—An injunction is an order from a court in equity to a particular individual or to various individuals to do or to cease from doing certain particular things. The judge issues the order, determines whether it has been disobeyed, and fixes the penalty for violations. Any one who violates such a court order becomes guilty of contempt of court and may be punished summarily without recourse to cumbersome judicial routine.

The injunction is naturally an emergency measure designed to prevent irreparable injury to persons or property until a final determination of rights can be made. It was originally intended to cover non-statutory offenses. Of recent years this weapon has become a rather common resort in industrial disputes. Moreover, instead of specifying certain specific acts, "blanket" injunctions frequently have been issued. Moreover, they have been used to enforce rather than to supplement the law.

One of the first uses of the injunction in labor disputes was in the famous Debs case of 1895. It grew out of the strike of 1894 which the American Railway Union was conducting against the Pullman Company. The public suffered from an interference with interstate commerce and a delay of the mails. Accordingly, the court issued an injunction against officials of the union and any other persons from interfering with interstate commerce and the transportation of the mails. Disobedience of this order was punished as contempt of court in spite of the fact that under existing Federal statutes interference with the mail was already specified as a crime. The injunction further enjoined any persons from "compelling or inducing by threats, intimidation, *persuasion*, force or violence any railroad employees from quitting work." For a violation of this injunction Eugene Debs was tried for contempt of court and sentenced to a prison term.[1]

Another famous use of the injunction was that in the Bucks Stove and Range Case of 1911. The workers had been utilizing a boycott in order to unionize the workers in the plant of this company. A court writ was secured against this boycott of the products of the Bucks Stove and Range Company on the part of "the officers of the American Federation of Labor, officers and members of affiliated unions, friends,

[1] In re Debs, 158 U. S. 564, 15 Supreme Court 900, 1895.

sympathizers, counsel, conspirators, and co-conspirators." They were forbidden from even referring directly or indirectly, by printed, written, or spoken words to the supposedly unfair practices of the company and to the very existence of an industrial dispute.

Such a court order prevented the circulation of the proceedings of a convention of the American Convention of Labor. If literally carried out, it would have terminated many constitutional guarantees to citizens. Freedom of speech or of the press was denied when it was used to promote such an illegal conspiracy as a secondary boycott. The American Federation of Labor was forced to discontinue the publication of its "We Don't Patronize" list in its official publication.

As a result of the injunction issued in the Bucks Stove and Range Case, Messrs. Gompers, Mitchell, and Morrison were indicted and given jail sentences for contempt of court. One of the offences alleged against them was the "printing of the text of the injunction in the *Federationist*."[1]

Two of the most drastic injunctions in labor disputes were secured by the Federal government through its Department of Justice. One was obtained in 1919 under the Food and Fuel Control Act. It prohibited the officers of the bituminous coal mines from calling a strike, directing it, or even touching the union funds in bank for strike benefits. The other case was the Daugherty injunction against the railway shopmen issued by Judge Wilkerson in 1922. This court order forbade officials of the union to issue instructions or to encourage cessation of work and forbade conspiracies from interfering with railroad operation, picketing, and all intimidation or violence. The court referred to the strike as a conspiracy to disobey the findings of the Railroad Labor Board.

11. Criticism and Regulation of Injunctions.—Organized labor has objected to "blanket" injunctions and to their issuance when no emergency justifies the sacrifice of due process of law. The objections to the injunction, or rather to the abuse of the injunction, are as follows: In the first place, it leads to the sacrifice of the constitutional guarantees of freedom of speech and freedom of the press. In the last place, it is contended that full publicity as to working conditions is desirable and that the injunction is often used to suppress such facts. Has not a person or combination of persons the right to make public the fact that a given plant pays low wages, works long hours, or opposes the closed shop? If an individual's business is injured, the intent is neither personal nor malicious but merely the general improvement of working conditions.

The Clayton Act of 1914 attempted to remedy some of the abuses of the injunction as well as to extend the efficacy of the boycott. It provided that injunctions issued by the Federal courts should not prohibit the stopping of work, peaceful picketing, nor the refusal to patronize,

[1] *Gompers vs. Bucks Stove and Range Company*, 221 U. S. 418, 31 Supreme Court 492, 1911.

whether done singly or in concert. Moreover, a jury trial was to be allowed in contempt of court cases where the offence was indictable as a crime. It was further provided that no preliminary injunction should be served without notice, unless it was evident that immediate and irreparable injury would result.

Recent judicial decisions, some of which have been cited in this chapter, seem to show that the Clayton Act has not restricted the power of the injunction any more than it has increased the power of the boycott. Even had it been enforced or enforceable, the Clayton Act applies only to the Federal courts and not to the state courts.

State legislation, however, has also attempted to limit injunctions and to prevent their abuse. But these efforts also have met with little success. An anti-injunction law was passed in 1913 by the state of Arizona, but it was declared unconstitutional by the Supreme Court of the United States in 1921.

12. Economic and Social Losses of Industrial Conflicts.—Attempts to estimate the cost of industrial conflict are as varied as attempts to estimate the cost of the World War. The Bureau of Labor, for illustration, estimated that the total loss due to strikes and lockouts from 1881 to 1900 was almost a half billion dollars. This is a large lump sum, but it becomes very small when divided among the number of people concerned, or spread out over these 20 years on a weekly basis.

The workman has probably spent less than 1 per cent of his income on strikes. According to Mr. Mitchell, the total loss in employment due to strikes from 1881 to 1900 amounted to 194,000,000 days, but when spread over the 20 years and among the large number of workers affected, it amounted to less than 1 day per year per adult worker.[1]

Official estimates for the United States show that the average industrial worker loses 20 days a year from illness, accidents, and various personal reasons. When compared to the total volume of unemployment, the unemployment due to strikes and lockouts is not very great. Moreover, when strikes and lockouts take place in slack seasons or in periods of economic depression, the resulting unemployment is not due entirely to these industrial conflicts.

The indirect losses of industrial conflicts are probably greater than the direct losses and the social costs greater than the economic. One of their most serious features is the disorder which often accompanies strikes and lockouts. Conservative labor leaders deplore the use of violence which only too frequently acts as a boomerang and alienates public sympathy. Revolutionary unionism, on the other hand, condones the use of open or secret force.

Strikes of well-organized unions of skilled workers are less apt to be accompanied by violence than those of poorly organized and unskilled

[1] MITCHELL, J., "Organized Labor," pp. 309–310.

workers. A large portion of the disorder which accompanies strikes can be ascribed to neither the employers nor the striking employees. It is the work of the various lawless elements in the community which have no regard for law and order and which care little for either human or property rights.

The attempt of an employer to use strike breakers often converts peaceful strikes into scenes of violence. This was the situation at Herrin, Ill., where it was necessary to proclaim martial law. Although strikers have sometimes asserted that troops are employed in order to break strikes and to weaken labor organizations, such measures become necessary when the local civil authorities are no longer able to cope with the situation. In times of grave disorder, Federal aid can be requested, for the constitution provides that a republican form of government shall be guaranteed to the individual states. Industrial conflict may not only result in a destruction of life and property but it may also endanger, for a time, the very existence of a democratic form of government.

13. Summary.—Strikes are weapons of last resort in the warfare between organized labor and capital. They are symptoms of industrial unrest which is particularly common in periods of economic adjustment. Strikes were very numerous in the closing decades of the past century and in the opening decades of the present century. Although especially numerous during the World War and the period immediately following it, there has been a considerable decrease in the number of these industrial disturbances during the past few years.

The chief cause of strikes has been the desire for increased wages or opposition to wage decreases on the part of the workers. Of recent years an increasingly important cause of strikes has been the controversy concerning the rights and weapons of collective bargaining, that is, about union organization and methods. A third important cause of strikes concerns hours of work.

Strikes are apt to be numerous and successful in periods of prosperity and rising prices. In periods of depression and falling prices they are less numerous and less successful, although they are apt to be severe and protracted.

The legality of a strike depends on its intent and on the methods used in conducting it. The strike as a collective cessation of work in a peaceful manner is generally regarded as legal, where the aim is an improvement in the wages, hours of labor, and working conditions of the employees. The legality of strikes, as well as of the methods used in their conduct, varies from state to state.

Strike breaking is the substitution of unorganized workers for those union employees who have gone on a strike. Picketing is an attempt of the union strikers or their sympathizers to persuade the employees at

work to join the strike. It is lawful if free from coercion or intimidation. Strike breaking is apt to be accompanied by violence.

Boycotts are organized refusals to purchase the goods or to use the materials of those employers who are hostile to organized labor. A primary boycott concerns only those who are parties to the dispute. A secondary boycott involves the general public and parties not directly involved in the dispute. Although primary boycotts have generally been regarded as legal, secondary boycotts have commonly been regarded as combinations in restraint of trade and as an unwarranted interference with interstate commerce.

Strikes and boycotts are weapons of the employees, but injunctions have more frequently been used by employers in labor disputes. An injunction is an order from a court in equity to a particular individual or to various individuals to do certain things or to refrain from doing particular acts. The violator of an injunction may be punished summarily for contempt of court.

The original purpose of the injunction was to afford immediate relief against a threatened loss of life or property until an adjudication of rights could be made. But the increased use of injunctions in labor disputes has been accompanied by the issuance of "blanket" injunctions and injunctions which restrain individuals from acts which are already specified as statutory offences and from acts which are in accordance with civic liberties and constitutional guarantees. Organized labor has bitterly criticized the use and the abuse of injunctions in labor disputes.

Various attempts have been made to estimate in monetary terms the costs of strikes and other industrial disputes. This annual charge on industry is surely in the millions of dollars. Even more serious than these economic losses, however, are the social costs of industrial disputes, as represented by deeds of violence, acts of crime, and class hatred. The present chapter on industrial conflict will be followed by one on industrial peace, in which various methods of preventing and arbitrating industrial conflicts will be discussed.

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Questions and Topics for Investigation

1. What periods have been characterized by frequent strikes and what by a relative freedom from these labor disturbances? Can you give any reasons?
2. Outline different types of strikes.
3. When are strikes apt to be successful? When unsuccessful? Why?
4. Discuss the legality of strikes.
5. Discuss the legality of picketing.
6. Differentiate between the primary and the secondary boycott.

7. Discuss the legality of boycotts.
8. What is an injunction? Defend its use.
9. How may injunctions be abused?
10. Illustrate the economic and social costs of industrial disputes.

Topics for Investigation

1. Causes of strikes and their changing character.
2. Effects of the Clayton Act of 1914 upon the boycott, the injunction, and the general subject of collective bargaining.
3. The sympathetic strike and the general strike.
4. The railway strikes of 1877 and 1894.
5. Debs case of 1895.
6. The anthracite coal strike of 1902.
7. Industrial conflicts in the union and non-union bituminous fields.
8. Danbury Hatters' case.
9. Buck's Stove and Range case.
10. Boycotts against the open shop and non-union materials.
11. Duplex Printing Company case.
12. Bedford Stone Cutters case.

CHAPTER XVI

INDUSTRIAL ARBITRATION AND CONCILIATION

PROBLEMS OF INDUSTRIAL PEACE

1. Methods of Adjusting Industrial Disputes.—The "*laissez-faire*" philosophy of government was possible as long as competition prevailed, industries were small in size, and the workers were unorganized. The development of modern industrialism has made such an economic philosophy no longer tenable. The rise of collective bargaining has meant the growth of strong organizations of employers and of employees, some supervision of whose activities is clearly within the scope of modern government.

The economic and social costs of modern industrial conflicts are so great that the general public can no longer remain a mere spectator or a silent partner. Today, the social control of industry is crystallizing into new and varied forms. Industrial peace, like international peace, is seeking articulation in some practical forms as well as in mere idealistic expressions.

The chief methods for the settlement of industrial differences are trade agreements and arbitration within industry, and also mediation, arbitration, and investigation on the part of the state and Federal governments. In industrial as well as international relations, the prevention rather than the settlement of conflicts is receiving more attention.

Trade agreements are compacts as to wages, hours, recognition of the union, and general conditions of employment which are made between an employer or an association of employers and the organized employees. They represent the normal functioning of collective bargaining between parties of fairly equal strength. The agreement is generally reached at a joint conference between union officials and representatives of the employers. It has a specific time limit, at the end of which a new conference is held for the purpose of drawing up a new trade agreement or reaffirming an old one.

Trade agreements are statements of accepted usages or of approved conditions of employment within a given industry. They are moral rather than legal compacts, for there is no governmental machinery for their enforcement. Moreover, they are compromises reached at joint conferences between employers and organized employees, at which the general public or the state has no representatives.

The term "conciliation" is sometimes used for the settlement of industrial disputes without the interference of a third party, but the

word is more often used as synonymous with mediation. Trade agreements are normal and regular, but conciliation implies the existence of a crisis or the failure to reach an agreement. Mediation is the presence of an outside person or a non-partisan body for the facilitation of industrial peace.

Conciliation and mediation are similar in that neither is compulsory nor judicial. The mediator has been termed a "confidential advisor" and an "industrial diplomat." His chief function is to help the two sides come to an agreement of their own accord rather than to render an award or a decision of his own making.

Industrial arbitration, on the other hand, is judicial rather than diplomatic. Arbitration involves the existence of a person, board, or court for the purpose of making an investigation and submitting a decision. Arbitration may be either compulsory or voluntary, and the acceptance of the award may be either compulsory or voluntary.

Reliance is sometimes placed on publicity rather than on legal compulsion. Compulsory arbitration with the voluntary acceptance of the award means hardly more than compulsory investigation. In that event strikes and lockouts are not prohibited, but they may be postponed until an impartial commission makes an investigation and publishes its findings.

2. Governmental Arbitration and Investigation Compared.—The various steps in voluntary arbitration have been outlined as follows:

> (1) The submission of the dispute to the decision of a third party; (2) submission to an investigation; (3) refraining from a strike or lockout pending investigation; (4) drawing up an award; (5) enforcement of the award and refraining from strike or lockout during its life. Arbitration remains strictly voluntary even if at every step except the first the state uses its compulsory power. The essential thing is that *both* parties consent in advance to calling in the powers of government. Hence, it is not inconsistent with the idea of voluntary arbitration for the state to use its power of compelling testimony, or even of enforcing an award, provided that both sides have previously agreed that this is to be done."[1]

Under the system of compulsory investigation the state may step in on the initiative of either party without the consent of the other, or on its own initiative without the consent of either party directly affected by the labor dispute. The state board of investigation is empowered to summon witnesses and to exact testimony, but it is purely a fact-finding organization. Although it may recommend as well as investigate, the board is without legal power to enforce its award. The compulsory postponement of strikes and lockouts during the investigation is an important characteristic of the Canadian and Colorado systems, but it is not essential to compulsory investigation.

[1] COMMONS, J. R. and ANDREWS, J. B., "Principles of Labor Legislation," rev. ed., p. 137, 1927.

Compulsory arbitration results when the government compels employers and employees to submit their labor disputes to an independent body and an outside agency for a decision. In compulsory arbitration all five steps listed for voluntary arbitration are followed, but the first step is no longer optional. Moreover, coercion exists all along the line—the dispute must be submitted to arbitration and the parties must refrain from strikes and lockouts. Witnesses must testify, the board must make a decision, and the parties to the dispute must observe the award during the period specified in the decision.

3. Relative Advantages of Various Methods of Governmental Action. The various attempts of governments to adjust industrial disputes may be grouped as mediation, voluntary arbitration, compulsory investigation, and compulsory arbitration. Great Britain, the Federal government of the United States, and most individual states of the Union have utilized mediation and voluntary arbitration. Great Britain and several European countries have employed compulsory investigation but without the necessary postponement of the right to strike. Compulsory investigation with the compulsory postponement of the right to strike in the meantime has been tried in Canada and Colorado. Compulsory arbitration has been used in Australasia and Kansas. What are the relative advantages and disadvantages of these different systems?

The chief advantage of mediation is that it permits the disputants to solve their own problems. A mutual understanding and a voluntary agreement between the two parties is better than some award imposed by an outside body of arbitration. A governmental commission of mediation accomplishes a great forward step in merely bringing together the two disputants. A discussion of their chief differences develops a knowledge of "the other fellow's point of view." A sympathetic understanding of common differences may develop a way out of the difficulty by some mutually acceptable compromise.

Arbitration and mediation are different stages rather than different methods. After mediation has been tried unsuccessfully, the two parties may agree to submit their differences to an impartial board of arbitration. The voluntary arbitration of industrial disputes, as well as of international disputes, is far superior to the costly methods of fighting them out as described in the last chapter.

It is alleged, however, that an outside board of arbitration cannot be familiar with existing conditions and with the problems at issue. In order to obviate this disadvantage, representatives of both employers and employees are sometimes placed on the board of arbitration in addition to representatives of the general public. In such a tri-part body, however, the votes of the first two groups are assured in advance, and the real decision rests, as before, with the representatives of the public. The award of such a non-partisan board of arbitration is apt

to be a compromise which is pleasing to neither party. The resulting peace may be only temporary.

Compulsory investigation means an impartial study of the causes of an industrial dispute. More light without more heat is the slogan. A public statement of the findings will rest the case with the great jury of public opinion. The temporary suspension of the right to strike, which is sometimes involved, may result not merely in the postponement of industrial warfare but possibly in its elimination.

4. Advantages and Disadvantages of Coercion by the State.—The advocates of compulsory arbitration point out that mediation, voluntary arbitration, and compulsory investigation do not always eliminate industrial conflicts. Compulsory arbitration is defended as a final resort because of the tremendous economic and social losses involved in strikes. The complexity and interdependent character of our modern civilization mean that strikes, lockouts, boycotts, and other weapons of industrial warfare injure countless individuals who are not parties to the disputes. In its final analysis, the case for compulsory arbitration rests on the public welfare which is jeopardized by industrial conflicts. Such legislation springs from the needs of the public, rather than in response to the demands of either labor or capital.

On the other hand, there are numerous strong arguments against this drastic step of coercion by the government. The existence of a powerful board of arbitration, whose award is compulsory, implies the existence of certain standards of justice in accordance with which the judgment is to be rendered. The determination of a just wage is even more difficult than the determination of a minimum wage. Boards of compulsory arbitration have been viewed as price-fixing bodies for the labor commodity. Again, the judicial method of using precedents, wherever possible, makes difficult the development of the concept of a progressive wage.

The enforcement of unpopular decisions is difficult, for individuals cannot be compelled to work against their wills. Most of the verdicts of courts of compulsory arbitration in Australasia and Kansas have been favorable to labor. Nevertheless, the cry of favoritism and prejudice has been raised by the workers as well as by their employers. Moreover, capitalists are opposed to wage boards which seek to regulate conditions of employment and to prescribe rates of wages. Ultraconservatism, on the one hand, and radicalism, on the other, are frequently charged by the defeated litigant and by the implacable foes of compulsory arbitration.

In the last place, the constitutionality of compulsory arbitration is a moot question in the United States. Not only does it restrict the freedom of contract guaranteed by the Federal Constitution but it has also been indicted by extremists as the imposition of conditions of involuntary servitude. It will be shown in a later section that judicial opinion in

the United States opposes compulsory arbitration as a general principle, although it may sanction it in public utilities and in some basic industries.

5. Collective Bargaining and Compulsory Arbitration.—Organized labor has attacked compulsory arbitration because of the limitations which it imposes on the weapons of collective bargaining. The right of organized labor to strike is necessarily sacrificed. Moreover, trade unions are weakened, for some of their chief reasons for existence are destroyed.

It may be said that the very essence of conciliation, mediation, and voluntary arbitration is the optional acquiescence and participation of the employers and employees. Hence, the powers of collective bargaining of neither party are sacrificed. But compulsory arbitration is coercive and affects the bargaining power of both labor and capital.

The workers contend that the loss of the lockout to the employer is not so serious as the loss of the right to strike on the part of labor. The employer is not forced to shut down his plant in order to cut wages, but the workers are often forced to do so, or to threaten such a move, in order to raise or to maintain their wages. In its final analysis, a strike is merely the collective refusal of an employer's terms by his employees. Consequently, it is contended that the loss of the right to strike destroys the essential power of labor to bargain collectively.

If compulsory arbitration is achieved, the state must assume the duty of regulating wages, hours, and working conditions by such institutions as wage boards. It must enforce the payment of minimum wages and the maintenance of decent standards of living. Moreover, the enforcement of such awards must be accomplished without the shutting down of the plant by a lockout or by conditions which make it unprofitable for the employer to continue in business.

Under conditions of compulsory arbitration the power of the employer to bargain effectively is also reduced. Labor's loss of the right to strike is accompanied by the employer's loss of the power to change wages, hours, and conditions of employment without state investigation. Such essential provisions are far more effective than the mere refusal of the right of a lockout. An employer can find many reasons for shutting down his plant in order to avoid the onus of a lockout.

In many countries of Australasia compulsory arbitration has been accompanied by minimum wage laws and minimum wage boards. In Great Britain and other lands the employer's power to bargain has been reduced by wage boards and other institutions, although the collective bargaining powers of labor have not been imparied by legislation in favor of compulsory arbitration and the postponement of strikes. In the United States, on the other hand, advocates of compulsory arbitration have not always been willing to recognize that the reduction of labor's powers of collective bargaining through the loss of the right to strike

must be compensated for by wage boards for the maintenance of minimum wages, decent standards of living, and acceptable conditions of employment. The denial of the lockout to employers is not the equivalent of the denial to organized labor of the right to strike.

6. Mediation and Voluntary Arbitration in Interstate Commerce.— Shortly after the Civil War, railroad strikes became so common in the United States as to constitute a serious national problem. Congress passed a law in 1888 which provided for voluntary arbitration in the case of industrial disputes in interstate commerce. In 1894, President Cleveland created a commission to investigate the Pullman strike of that year. Out of its report came the Erdman Act of 1898 which provided for mediation and voluntary arbitration in interstate commerce.

By the provisions of the Erdman Act the chairman of the Interstate Commerce Commission and the Commissioner of Labor were to serve as a permanent board of mediation. But mediation was contingent on the request of either party to the dispute and on the acceptance of the offer of mediation by the other party. In case of failure to adjust the difficulty, the board was required to propose arbitration.

Voluntary arbitration was in the hands of a temporary and specially created board of three members. One member was chosen by the employers, one by the employees, and the third member by the other two or by the permanent board of mediation. If arbitration was agreed to, the award of the board was compulsory.

During the first few years of its existence, the Erdman Act was little used, but after 1906 a number of requests for mediation and arbitration were made by both employers and employees. Its efforts at mediation were rather successful but its provisions for voluntary arbitration were rarely used.

The Erdman Act was supplanted by the Newlands Act of 1913. The latter provided for the United States Board of Mediation and Conciliation, consisting of a permanent commissioner and two other officials appointed by the President with the advice and consent of the Senate. Unlike the former board, it could act on its own initiative and was not forced to wait for a request for mediation from either party to the dispute and for an acceptance by the other party of its offer of mediation. If a resort to arbitration was necessary and desired by both parties, the board increased its membership from three to six and sat as a board of arbitration rather than as one of mediation.

The Board of Mediation and Conciliation was fairly successful in settling disputes among railway workers from 1913 to 1916. In the latter year its efforts at mediation were unsuccessful, for the railroad brotherhoods refused to accept arbitration. In order to avoid a serious nation-wide railroad strike in 1916, Congress intervened by the passage of the Adamson Act which granted the basic 8-hour day in that industry.

Although such action may have been necessary and such legislation desirable, the United States Board of Mediation suffered a serious loss of dignity.

During the Federal operation of the railroads during the World War, the Railroad Wage Commission was established by the director general of the railroads. Various ephemeral railroad boards of adjustment were also created.

The railroads were returned to their owners under the Transportation Act of 1920. This law provided for the creation of railway boards of labor adjustment and a central Railroad Labor Board. The latter body consisted of nine members, three of whom represented the employers, three the employees, and three the general public. They were appointed by the President and approved by the Senate. During his 5 years in office, no member could own the securities of any common carrier nor be an officer of any labor organization.

It was the feeling of many thoughtful persons that strikes on the part of the employees of public utilities were wrong. It was proposed to make the arbitration of industrial disputes compulsory in the railroad industry. This extreme step, however, was not taken in the Transportation Act of 1920. Although the Railroad Labor Board was a court of final appeal, its decisions were not mandatory. Although it made wage decisions involving a billion dollars, it was often defied by both railroad companies and railroad unions.

Its lack of authority prevented the decisions of the Railroad Labor Board from being mandatory and the board suffered a constant loss of prestige. It was finally abolished by the Parker-Watson Act of 1926 which restored the former method of direct negotiations between the railroads and their employees.

Provision was made under the new law of 1926 for local boards of adjustment, for mediation, and for voluntary arbitration. A Federal Board of Mediation, to be appointed by the President, was also created. This body can mediate at the request of either party or on its own initiative in labor disputes, affecting common carriers, which are not settled by the local boards of adjustment.

Boards of arbitration are to be provided in case mediation fails and both parties are willing to consent to arbitration. If arbitration is agreed to, the award of such voluntary arbitration is to be mandatory and enforceable. But the Board of Mediation cannot on its own initiative hand down a decision. Even in cases of emergency it can merely investigate the industrial dispute and give publicity to its findings. The compulsory arbitration of labor disputes, even within interstate commerce, still remains in the very uncertain future.

7. Federal Government and Other Industrial Disputes.—The anthracite strike of 1902 marked a turning point in the history of the Federal

government's attempts to adjust industrial disputes. Thus far it had confined its activities chiefly to strikes among railroad employees, where it had justified its activities principally under the interstate commerce powers of the Federal government. From May until October of 1902, however, the entire country suffered so severely from a strike of the anthracite miners of Pennsylvania that it came to be felt that the mines, as well as the railroads, were essential industries in which the public was vitally concerned.

In order to prevent a serious fuel shortage during the approaching winter, President Roosevelt finally threw aside precedent. He appointed, on his own initiative and without any special legal authority, the famous Anthracite Coal Commission of 1902. Both sides agreed to accept the verdict of the arbitrators and the miners went back to work.

A great wave of popular approval showed that the time was ripe for decisive action of some sort in a national industrial crisis. The Anthracite Coal Commission recommended in its final award that the President and the governors of the various states be given the power to appoint committees of compulsory investigation whenever industrial disputes of sufficient importance arose. A new function of government had developed, namely, the promotion of better labor relations. Again, the arm of the Federal government had been extended from interstate commerce to other industries.

Strikes in the coal-mining industry, however, have been chronic; and on several subsequent occasions Federal commissions have been appointed. Thus, the bituminous coal strike of 1919 was settled by the appointment of a commission of three members, one representing the miners, one the operators, and one the general public. The majority report, which was accepted by both sides, provided for a 27 per cent increase in wages and for the continuance of the 8-hour day. In June, 1920, a similar commission was again appointed by President Wilson for the anthracite dispute of that year. Another Federal commission was appointed a few years later to study the coal situation. The report of this Coal Commission in 1925 was most comprehensive.

The Federal Commission on Industrial Relations was appointed under an Act of 1912. Its purpose was to investigate the causes of industrial unrest in the United States. This commission was composed of nine persons, three representing the employers, three representing organized labor, and three representing the general public. A corps of experts investigated conditions in various industries and in various parts of the country. Their report was finally made in 1916. The commission stressed the importance of industrial peace by means of trade agreements and by governmental machinery for mediation and voluntary arbitration. Compulsory arbitration was not recommended as a general principle. A

number of other findings and recommendations of the Commission on Industrial Relations have already been mentioned in other connections.

In 1913, the former Department of Commerce and Labor was split into its two component parts, from one of which the new Department of Labor emerged. This Act of 1913 specified that the functions of the Department of Labor should include the adjustment of industrial disputes as well as the collection of information concerning labor conditions. Within the Department of Labor there was organized a Bureau of Conciliation which was to concern itself with industrial disputes in occupations other than those of interstate commerce. Although compulsory arbitration is absent, its work of mediation has been fairly successful. There is also a fact finding Bureau of Labor Statistics.

8. National Industrial Conferences during the World War.—The period of the World War was one of strikes and great industrial unrest. As it was especially necessary then that the wheels of industry be kept in constant progress, a number of emergency bodies were created for the purpose of avoiding or settling industrial disputes. In the fall of 1917, for illustration, President Wilson appointed the President's Mediation Commission to investigate the industrial disturbances in the West. As the war progressed, it became increasingly necessary to direct carefully the course of production and to conserve the labor resources of the country. The closer cooperation of labor and capital was essential for the successful prosecution of the war.

A War Labor Conference Board was appointed which had its first sitting in February, 1918. It consisted of five members representing the general public. This body was continued in the National War Labor Board which remained in existence until after the signing of the armistice. In order to prevent strikes, the National War Labor Board agreed to nearly all the essential demands laid down by organized labor except the closed shop.

In October, 1919, President Wilson called a National Industrial Conference which continued the familiar tri-part form. The war was now over and a steel strike was in progress. Cleavage along economic lines soon developed which finally resulted in an open break. The conference was ended abruptly by the withdrawal of the labor members after they had failed to get the inclusion of union representatives, or "walking delegates," written into a definition of collective bargaining which all the delegates had readily endorsed in principle.

President Wilson then called a Second Industrial Conference shortly afterward but it was not organized along tri-part lines. This conference was composed of seventeen citizens from various walks of life. Most sessions were not public. Secretary of Labor Wilson was chairman and Herbert Hoover the vice-chairman. The conference made no attempt

to analyze causes of industrial unrest, as did the former Commission on Industrial Relations, but confined its attention to machinery for settling strikes. It stressed mediation and voluntary arbitration, relying on the weapon of public opinion for their effectiveness.

The real contribution of the Second Industrial Conference was a plan for a National Industrial Board and for local boards of inquiry and adjustment. There were to be regional adjustment conferences, consisting of a chairman and eight members, four representing employers and four representing employees. In the case of public utilities, there were to be two representatives of the government. If the regional board did not agree unanimously, the matter might go to the National Industrial Board or to an umpire for arbitration. A regional board of inquiry was to consist of two employers in the industry involved and two employees of the craft involved, provided that none of the four were participants in the particular industrial dispute.

In case of a refusal to submit to mediation on the part of the regional board of adjustment, the regional board of inquiry had powers of investigation and of publicity. Where there was agreement for mediation, two representatives from the employers involved and two representatives from the employees involved in the controversy were to be added to the regional board of inquiry, which thus became a regional board of adjustment.

The National Industrial Board with headquarters in Washington was to supervise and administer the plan. It should consist of nine members appointed by the President with the approval of the Senate. Three members were to be chosen from among employers, three from organized labor, and three to represent the general public.

This plan of the Second Industrial Conference of President Wilson has not been tried, but it offers possibilities for the adjustment of industrial disputes in fields other than interstate commerce. It does not propose compulsory arbitration but rather mediation and voluntary arbitration. The participation of the government is reduced to a minimum. It relies on the weapon of publicity and imposes no penalty other than that of public censure. The plan has great flexibility of administrative machinery. The aim is to help the disputants settle their own differences rather than to impose a judicial decision upon them. The plan copies many features of the famous Whitley industrial councils of England.

9. State Boards of Mediation and Voluntary Arbitration.—The first state law providing for conciliation or arbitration in the case of industrial disputes was that of Maryland in 1878. Since that time the majority of individual states have passed various laws for the same general purpose. This legislation may be classified according to the type of administrative machinery provided. Thus, there are local, district, and state bodies;

temporary and permanent boards; commissions and commissioners; public and private officials.

A report of the Bureau of Labor classifies this state machinery for mediation and voluntary arbitration into four general groups, as follows: (1) temporary boards of local character; (2) permanent local bodies established by private parties; (3) state commissioners of labor who are authorized to interfere in industrial disputes in addition to other duties; and (4) special state boards or commissions. The first system, which is historically the oldest, has been of little value. Experience has also shown that the second type is little better. Sporadic success has attended the third method.

Of recent years most states have adopted the fourth general type, for they have created permanent state boards for intervention in industrial disputes. Massachusetts and New York were among the first states to introduce this system and its operation has been fairly successful. There are usually three members of the state boards of arbitration and conciliation who are generally appointed by the governor with the approval of the upper house.

Mediation and voluntary arbitration without coercion are the usual methods employed in settling industrial disputes. After arbitration has been agreed to by both parties to the dispute, the acceptance of the award is compulsory under the laws of some states but optional in others. In about a score of states the voluntary agreement to arbitrate must be accompanied by the postponement of a strike or lockout during the governmental investigation. Investigation may be compulsory or left to the discretion of the commissioners. Considerable public education is still necessary to induce the parties to local industrial disputes to bring their grievances before these state boards of arbitration and conciliation rather than to fight them out by means of strikes and lockouts.

10. Compulsory Arbitration in Australasia.—Although the Federal government of the United States and most of the individual states have sought to promote industrial peace by means of mediation and voluntary arbitration, the experiment of compulsory arbitration has been tried in Kansas. New Zealand was the real pioneer in this field, however, for a law was passed there as early as 1894 which made strikes and lockouts misdemeanors.

Compulsory arbitration in New Zealand did not supplant but merely supplemented conciliation. The system of administration was built up around what were known as industrial unions. Any fifteen or more employees, any three or more individual employers, or any incorporated company might constitute such an organization. Existing trade unions were frankly recognized as parts of the system.

State officials known as "commissioners of conciliation" seek to mediate in industrial disputes. Where the efforts of the commissioner

are futile, he organizes a council of conciliation by asking each side to appoint the same number of assessors to serve with him on this board. This council suggests compromises and attempts to adjust differences.

In case of failure to reach an acceptable solution, an appeal is made to the Court of Arbitration which is an important governmental tribunal. Its presiding officer is a judge of the Supreme Court, and the governor appoints one member to represent the employers and one to represent the employees. These two appointees are selected from the industrial unions of employers and of organized labor. This court of three members has full powers of investigation and there is no appeal from its decision. The time limit of the award, which is always carefully specified, is generally 3 years. This award may also be applied to all similar workers in a given industry and in a given locality. Strikes or lockouts for the purpose of changing the conditions specified in the judicial award are illegal, and they are punishable by heavy fines.

The New Zealand experiment in compulsory arbitration was imitated in New South Wales and other states of Australia. In 1904, a Federal compulsory arbitration law was passed for the entire commonwealth of Australia. Meanwhile, Victoria and Tasmania had accepted the system of compulsory wage boards. Although not doing away with the right to strike, the system of compulsory wage boards affords such a ready substitute for strikes that they are rarely used. Thus, practically all of Australasia has adopted laws which are coercive of individual bargaining, collective bargaining, or both.

11. Compulsory Arbitration in Kansas.—In 1920, the state of Kansas introduced compulsory arbitration in certain industrial disputes. In New Zealand, strikes were illegal for registered unions, but, in Kansas, they were illegal for vital industries which seriously affected the public interest. The scope of compulsory arbitration was somewhat differently determined. The Kansas law forbade strikes in public utilities and industries producing such necessities as fuel, clothing, and food. Indeed, this drastic piece of legislation grew out of a serious coal strike.

The Kansas Court of Industrial Relations consisted of three judges appointed by the governor on the approval of the state senate. This body for industrial arbitration was unique in that it contained representatives from neither employers nor employees. The familiar tri-part composition was entirely absent, for the court was non-partisan. On the other hand, the knowledge and experience of practical employers and labor leaders were lacking. In spite of its judicial character, the functions of the Industrial Relations Court were largely administrative. It was given the powers which previously had been held by the Public Utilities Commission and, later, those of the Industrial Welfare Commission and the Department of Labor.

In cases of industrial disputes, the Kansas Court might investigate on its own initiative or on a request from either party or from a group of citizens. As a result of its findings, it might issue an order as to hours, wages, or general working conditions. For a defiance of its orders, the court could bring suit in the Supreme Court of Kansas. Fines and imprisonment might be imposed, and indeed, several mine leaders have been sentenced.[1] The court was empowered to operate an industry during a labor crisis if conditions seemed to warrant this measure.

Although the right of labor to organization and to collective bargaining was not denied, the law prohibited strikes, lockouts, picketing, boycotts, and other weapons of industrial conflict in essential industries. Although individuals might quit work themselves, they might not organize and induce other workers to do this collectively. Thus, a union official was punished for contempt of court for disobeying an order not to call a strike after an injunction to that effect had been issued by a Kansas Court. This verdict was sustained in 1922 by the Supreme Court of the United States.[2]

The Kansas Court of Industrial Relations attracted tremendous attention throughout the United States as the first American experiment in compulsory arbitration. Organized labor consistently and insistently opposed the project. Within the state of Kansas, the Industrial Relations Court became a political issue in the autumn elections of 1922. The Democratic party, which represented the opposition, was victorious at the polls. As soon as it came into control it began to strip the court of its powers.

In 1923, and again in 1925, the Supreme Court[3] of the United States declared unconstitutional the attempt of the Court of Industrial Relations to fix wages and conditions of employment in the meat-packing industry. Moreover, such regulation was regarded as essential to compulsory arbitration. Again, the packing industry was not regarded by the Supreme Court of the United States as so vital to public welfare that collective agreement to strike in defiance of the order of the Kansas Court of Industrial Relations was to be regarded as a crime. It was held that the police power of the state could not be invoked to support compulsory arbitration in those industries in defiance of the Fourteenth Amendment. Although the constitutionality of compulsory arbitration was not denied in public utilities, the general application of that principle was regarded as a violation of individual freedom of contract.

The Kansas Court of Industrial Relations, the first American experiment in compulsory arbitration, was abolished by the legislature of that

[1] *Howatt vs. Kansas*, 258 U. S. 181, 42 Supreme Court 277, 1922.
[2] *Howatt vs. Kansas*, 258 U. S. 181, 42 Supreme Court 277, 1922.
[3] *Wolff vs. Court of Industrial Relations*, 262 U. S. 522, 1923.
Wolff vs. Court of Industrial Relations, 267 U. S. 552, 1925.

state, which took effect Mar. 19, 1925. Its duties and powers were transferred to a public service commission which continues to function with limited powers over labor disputes, but only within public utilities. Its chief powers now are the usual ones of investigation and publicity. Compulsory arbitration within the United States has been as brief as it was local. It failed to receive, in this country, the public approval and the legal sanction which it has long enjoyed in Australasia.

12 Compulsory Investigation in Canada.—Although the compulsory arbitration of industrial disputes has not made such headway in America, both Canada and the United States have adopted certain other coercive features. These involve (1) the compulsory investigation of labor disputes; (2) the enforcement of awards which have been accepted by both parties to voluntary arbitration; and (3) the prohibition of sudden changes in terms of employment and the prohibition of sudden strikes or lockouts.

The Canadian Industrial Disputes Act of 1907 made strikes and lockouts unlawful until after the causes of these disputes had been investigated by a governmental body appointed for that purpose and until after publicity had been given to the results of its investigation. Moreover, 30 days' notice in advance was required for any change or organized demand for a change in wages or hours of work. The law was applicable to public utilities and mines. It has been far more successful in the former industries than in the latter.

By such an enforced delay an opportunity was given to either party to apply to the Department of Labor for a board of conciliation and investigation, a tri-part body composed of three members. Strikes and lockouts were forbidden prior to the publication of the findings of this body and penalties were imposed for violations of this industrial armistice. The postponement of the opening of industrial conflicts gave an opportunity for both mediation and investigation. The aim of this Canadian legislation was to prevent strikes rather than to settle them. Unlike compulsory arbitration, this law did not make illegal these weapons of collective bargaining but merely postponed their use.

In 1923, this Canadian legislation was attacked in the courts as unconstitutional. It was finally brought before the Privy Council of the Empire. In 1925, Chancellor Haldane held that this law was an unconstitutional violation of the British North American Act of 1867 under which Canada is governed. The act of 1907 legislated for occupations under the jurisdiction of the individual provinces.

The original law of 1907 was amended in 1925; its provisions now apply only to interprovincial commerce. Although the amended law is now constitutional, it is necessarily limited in scope. This legislation has proved so popular in Canada, however, that a number of individual

provinces are attempting to secure this sort of legislation for basic industries under their own jurisdiction.

13. Compulsory Investigation in United States.—The Colorado Industrial Commission Act of 1915 was similar to the Canadian Industrial Disputes Act of 1907. It provided for compulsory investigation and made strikes and lockouts illegal in the interim. The Industrial Commission has the power of making an award, but its acceptance is not compulsory. Thirty days' notice must be given before employers can make changes in conditions of employment, or before the workers can call a strike. This act is applicable to all large industries. Agriculture, domestic service, and very small establishments employing less than four workers are exempt.

The laws of several American states provide for the compulsory investigation of labor disputes by their governments, but without the compulsory postponement of strikes, lockouts, and sudden changes in conditions of employment. It may be contended that such legislation merely provides for mediation by the government, but in reality it does even more. The fact that the state board of investigation is empowered to take testimony without the consent of either party to the labor dispute pushes the functions of government beyond those of mediation and into those of compulsory investigation.

14. Coercive Measures in Great Britain and Germany.—In Great Britain and other European countries, legislation exists for the compulsory investigation of labor disputes by the government, in addition to that providing for governmental agencies for conciliation and mediation during strikes and lockouts. It is generally required that the findings of such an impartial commission be published in order that the weapon of public opinion be brought to bear on the more culpable or recalcitrant party to the industrial dispute. But, in general, there is not involved the temporary suspension of the right to strike, nor the requirement of a preliminary announcement of essential changes in working conditions. In these respects the Canadian Industrial Disputes Act was rather unique.

Since the World War, and especially since the adoption of the Dawes plan, Germany has been rather successful in preventing strikes and other industrial disturbances. Coercive measures on the part of the government involve both investigation and arbitration, as well as the usual mediation and conciliation.

By a decree of 1923, Germany was divided into a number of districts, each of which has its chairman of an arbitration board appointed by the state. If the arbitrator fails to secure agreement in a labor dispute after bringing the parties together, he sets up an arbitration board composed of himself, as chairman, and two members from the parties

to the quarrel. Although an award by this board is not legally binding, the Reich Minister of Labor has the right to declare it so, if, in his opinion, "the settlement appears just and reasonable with due consideration for the interests of both parties, and if its application is desirable for economic and social reasons."

15. Settlement of Industrial Disputes within Industry.—The settlement of industrial disputes within industry is even more important and more beneficial than their settlement from without industry by the state. The development of governmental machinery for the adjustment of labor disputes has been paralleled by the organization of similar institutions on the part of organized labor and associations of employers.

Although the states and the Federal government have been acquiring a new function, namely, the development of better industrial relations, even more significant has been the gradual evolution of parliamentary, judicial, and diplomatic machinery for the functioning of collective bargaining between employees and employers themselves, and for the settlement of industrial disputes within industry. Within the political state, but often apart from it, are being tried numerous experiments in industrial democracy. Trade agreements, industrial representation, and profit sharing are some of its chief manifestations.

16. Trade Agreements.—Trade agreements are collective bargains between representatives of organized labor and associations of employers. A mutual understanding is achieved concerning wages, hours, and conditions of employment in a particular industry, which agreement is supposed to hold good until another joint conference takes place. A trade agreement merely defines the accepted usage or conditions of employment within that industry. It is not a contract, although individuals contract for employment under the terms recorded in the trade agreement for that occupation at that time and place.

A court decision defined a trade agreement as follows.

> It is merely a memorandum of the rates of pay and regulations governing, for the period designated, enginemen employed on the Chattanooga division of the company's railway. Having been signed by the appellee, it is evidence of its intention in the conduct of its business with enginemen on said division, to be governed by the wage and rules, and for the time therein stipulated. Enginemen in or entering its service during the time limit contract with reference to it.
>
> There is on its face no consideration for its execution. It is therefore not a contract. It is not an offer, for none of its terms can be construed as a proposal. It comes squarely within the definition of usage.[1]

The term "usage" is a legal concept, which has been defined as follows by another court decision:

[1] *Hudson vs. Cincinnati N. O. and T. P. R. Co.*, 152 Ky. 711, 154 S. W.

An established method of dealing, adapted in a particular place or by those engaged in a particular vocation or trade, which acquires legal force, because people make contracts with reference to it.[1]

Trade agreements are collective bargains between representatives of organized labor and associations of employers. A compact is made concerning wages, hours, and conditions of employment in a particular industry, which is to hold good until another joint conference takes place. Trade agreements are practical rather than idealistic. They do not represent attempts to harmonize the general interests of labor and capital, but endeavor frankly to face existing differences in a given industry. The alignment of interests is clearly cut, and there is no participation of representatives of the public.

The usual parliamentary filibustering, higgling, and political chicanery are present upon both sides during the making of trade agreements. After both labor and capital have been forced to show their hands and to play their trump cards, a heated discussion takes place. Either of two things results. A compromise, which is largely determined by existing economic conditions, or a declaration of war is made.

Loss of profits, on the one side, and loss of wages, on the other, are the sinister shadows which hover over the discussion. In order to prevent industrial warfare, each side generally yields on certain points, hoping that conditions will be more favorable in the next conference. The general public watches from a distance this economic volcano which is not extinct but merely temporarily quiet.

The trade agreements of the well-organized and better paid industries are fairly well kept. On the other hand, there is generally no legal weapon for their enforcement. Moreover, the repeated failures of joint conferences to make successful trade agreements is interpreted by some critics as a failure to function successfully as devices for securing industrial peace.

Some trade agreements, however, are accompanied by provisions for arbitration. Such arbitration within industry itself is accomplished by judicial bodies composed of employees and employers. The absence of representatives of the public is feared by some students of the problem. No representatives of the consumers are present to oppose an agreement for higher wages and for necessarily higher prices of the commodity produced. Trade agreements may promote harmony within an industry, but the public is often forced to pay the bill.

17. Illustrations of Trade Agreements.—The union coal mines operate under the joint conference system, and their trade agreements are fairly typical. A joint conference is held from time to time and attended by several hundred delegates. The number of representatives from both sides has been reduced, and a large share of the important work is now

[1] *Byrd vs. Beall*, 150 Ala. 122, 43 So., 749.

done in committee. A unanimous vote of the conference, however, is necessary for any momentous decision.

In this great industrial parliament, representatives of the miners sit on one side and representatives of the operators on the other. Although the public may attend most of the sessions, they are not permitted to have representatives on the floor. Thus, a non-partisan view is rarely expressed. Again, these joint conferences often have no machinery for the arbitration of controversial points. Failure to come to some agreement means industrial warfare in the union coal fields.

The railroad brotherhoods have somewhat similar agreements with the railroad companies in addition to the governmental machinery for mediation and voluntary arbitration. A trade agreement has recently been made in the printing industry by the formation of the International Joint Conference Council of the Allied Printing Trades.

In 1891, the Stove Founders' National Defense Association and the Iron Molders' Union of North America entered into a trade agreement for the elimination of disastrous strikes. Annual conferences of representatives of employers and employees are held, as well as joint committees of adjustment. Strikes and lockouts are forbidden in the meantime.

Trade agreements are common also in the building industries. A typical one was reached in 1921 by the Joint Conference Board of the Building Construction Employers' Association and the Building Trades Council of Chicago. A Joint Conference Board was to meet annually and to organize a Joint Arbitration Board of an equal number of representatives of employers and employees. A provision, which is rather typical of trade agreements, was that public officials and individuals not engaged in the building industry be excluded.

Other unique features of this particular trade agreement were the abandonment of limitation of output, of restrictions on the use of machinery, of the prohibition of apprentices, and other familiar weapons of organized labor. Strikes and lockouts in defiance of trade agreements were forbidden under penalty of suspension. Disputes were to be referred to the presidents of the two associations, and, if they could not settle them, to a Joint Arbitration Board.

Since 1910, trade agreements have been very common in the clothing industry. These are significant, first, as determining certain fundamental standards of labor throughout the needle industries, and, second, as devices for the adjustment of industrial disputes.

The parties to the agreement ratified the preferential union shop, that is, one which maintained union conditions and which employed union workers in preference to non-union workers. The 44-hour week was accepted, overtime restricted and to be paid for at preferential rates, and home work was proscribed. An attempt was made to minimize

the seasonal aspect of the clothing industry by spreading the work throughout the entire year. Contractors were to be registered and held responsible for conditions within their shops. In order to eliminate unsanitary surroundings and sweatshop conditions within New York City, there was organized a Joint Board of Sanitary Control.

18. Adjudication of Individual Grievances within an Industry.—The clothing firm of Hart, Schaffner, and Marx, Chicago, was a pioneer in the promotion of better industrial relations. A department of labor was organized which took from the foremen their right of arbitrary discharge. Trade agreements were ratified with the United Garment Workers and later with the Amalgamated Clothing Workers. These provided for the existence of a Trade Board and a Board of Arbitration.

When a grievance arises on the floor of the shop, it is reported first by the complainant to the union representative within the shop. The latter takes up the matter with the shop superintendent if he feels the cause to be just. If these two individuals are not able to settle the difficulty, it is referred to the deputy. Deputies are representatives, of both employers and employees, who are chosen for the purpose of enforcing the terms of the trade agreements. A pair of deputies make an investigation and attempt a settlement. If this is impossible, or the principle at issue is very important, the matter is referred to the Trade Board.

The Trade Board consists of eleven members, all of whom except the chairman are employed by the Hart, Schaffner, and Marx Company. Five are selected by the company and five by the union, but the chairman is chosen by the Board of Arbitration. The latter consists of three members, one chosen by each side and the third member by the common agreement of the other two. The Trade Board is the primary body and it is essentially a fact-finding jury. If a principle is involved which necessitates an interpretation of the existing trade agreement, an appeal may be made to the Board of Arbitration whose decisions are final.

19. Summary.—The economic and social costs of industrial conflicts are so tremendous that the prevention and settlement of strikes is receiving great attention. Industrial cooperation must succeed industrial warfare. Industrial disputes may be adjusted by industry itself or under pressure from the general public, by voluntary or coercive measures, and either with or without the intervention of the government.

The various methods of governmental action are mediation or conciliation, compulsory investigation, and voluntary or compulsory arbitration. Mediation is diplomatic, for its aim is to help the disputants settle their own difficulties. Arbitration is judicial, for an award must be made by the board of arbitration. The acceptance of arbitration may be voluntary or compulsory, and the acceptance of the award may be voluntary or compulsory. Compulsory arbitration with a voluntary acceptance of the award means merely compulsory investigation.

The frequent failures of mediation and conciliation to prevent strikes and the suffering which they inflict on the general public have led to the advocacy of coercive measures. Compulsory investigation represents an impartial study of the causes of industrial unrest and a dissemination of these findings. An appeal is made to the weapon of public opinion.

Compulsory arbitration would go ever farther, for it would make binding the award of the commission. However, it involves the existence of certain standards of justice in the matter of wages, hours of labor, and general working conditions, as well as wage boards for their codification and interpretation. Organized labor has opposed compulsory arbitration because of its denial of the right to strike and other weapons of collective bargaining.

In New Zealand and Australia compulsory arbitration and wage boards have functioned successfully for a number of years. The experiment of compulsory arbitration was also tried in Kansas, but it was declared unconstitutional as a general principle.

Compulsory investigation may or may not involve the postponement of the right to strike. This provision was embodied in the laws of Canada and Colorado, but this feature is absent from compulsory investigation in Great Britain and most American states.

Joint industrial councils are meetings of representatives of employers and of organized labor for the formulation of trade agreements. These define the accepted conditions of labor in a particular industry for a particular time. Trade agreements are not contracts, although individuals may contract with reference to them. The trade agreements in certain industries, as for illustration in the needle industries, not only define the general standards which are to prevail but also contain provisions for the arbitration of industrial disputes and for the adjustment of individual grievances.

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Questions for Discussion

1. Differentiate between mediation and conciliation, and between meditation and arbitration.

2 Contrast the relative advantages and the disadvantages of mediation and voluntary arbitration.

3. Show the objectives and limitations of compulsory investigation.

4. Explain the methods used in Canada and Colorado.

5. Justify or criticize compulsory arbitration.

6. Outline briefly the methods used in Kansas and New Zealand.
7. Trace the evolution of mediation and voluntary arbitration on the part of the Federal government in interstate commerce.
8. What are some of the distinctive features of trade agreements?
9. Illustrate from the clothing or coal-mining industries.

Topics for Investigation

1. The strike of 1902 and The Anthracite Coal Commission.
2. The functioning of the Railroad Labor Board.
3. Governmental machinery for better industrial relations in your own state.
4. The promotion of industrial peace during the war.
5. President Wilson's First and Second Industrial Conferences.
6. The success of compulsory arbitration in Australasia.
7. The history of the Kansas Court of Industrial Relations.
8. The success of compulsory investigation in Canada and Colorado.
9. Compulsory arbitration and organized labor.
10. Trade agreements in the coal mines.
11. Prevention and settlement of industrial disputes in the clothing industries.

PART FIVE

THE APPROACH OF THE EMPLOYER

Chapter XVII. Scientific Management and Personnel Administration, *Industrial Efficiency and Human Welfare.*

Chapter XVIII. Employee Representation and Profit Sharing, *Industrial Democracy and the Copartnership of Labor.*

CHAPTER XVII

SCIENTIFIC MANAGEMENT AND PERSONNEL ADMINISTRATION

INDUSTRIAL EFFICIENCY AND HUMAN WELFARE

1. Nature of Scientific Management.—Scientific management is an attempt to apply the scientific method to industry. The Industrial Revolution is generally understood to include those great mechanical inventions which began in the closing years of the eighteenth century and which were accompanied by the introduction of the factory system. The modern movement of scientific management has sometimes been interpreted as a second phase of the Industrial Revolution. It represents a further advance in technology, that is, in the application of science to the problems of economic production.

Scientific management seeks to discover by the process of experimentation what method of doing a particular piece of work is the most efficient, that is, which yields the maximum of production with the minimum of effort. It seeks to test the results of traditional methods of production and to eliminate guess work or the "rule of thumb." After the most satisfactory methods are determined, industrial processes and even human activities themselves are standardized in accordance with these findings.

2. Pioneer Time and Motion Studies.—The great pioneer in scientific management was Frederick Taylor who may justly be given the title of the first efficiency engineer. He became interested in the subject because of his belief in the universal tendency of workmen under the modern conditions to shirk or "to soldier on the job." Taylor ascribed this tendency to ignorance on the part of both employers and employees as to what constituted a fair day's work. He sought to determine this standard in concrete cases by the process of scientific experimentation.

In order to secure a fair day's work with maximum production, it was found necessary to study, to improve, and to standardize industrial processes. It was no longer possible to leave to the workman the details of how he should work. Taylor's famous time and motion studies led him to the conclusion that many laboring operations were far from efficient. Scientific management discovered that the laying of bricks, for illustration, was not done in the most efficient manner. The various motions of bricklaying were, therefore, carefully studied and standardized into what seemed the most efficient manner. The skilled bricklayer was

relieved of certain tasks which could be performed by unskilled labor. Similar time and motion studies revealed that workmen were shoveling in a haphazard fashion. Consequently, standard size shovels were insisted upon for different types of work.

3. Essentials of Scientific Management.—Scientific management requires constant planning, for it is necessary to schedule carefully the work of every worker and every machine. Thus, scientific management developed as one of its cardinal principles the transfer of function, direction, and method from the workers to management. Moreover, it is also necessary to separate routine work from exceptional work. The latter is the function of the management or of specially trained workers whose time should not be spent on mere routine matters which require little skill or judgment. This great increase in the functions of management requires especially prepared assistants or "functional foremen." The old military type of organization must give way to the new functional organization of industry.

Scientific management requires the improved layout of the plant and the best possible flow of work. It involves the introduction of improved machinery and the use of those industrial processes which have been scientifically proved to be the most efficient. Scientific management also requires the keeping of careful records, the results of which should be applied to industry. Thus, modern cost accounting is necessary to the scientific management of industry.

After improving the general conditions of work and raising labor to a high point of efficiency, a standard day's work is generally decided on for a given operation. A scaled bonus above the current wage rate may be given to a worker who finishes a given task in less than the allotted time.

Taylor enumerates the following four underlying principles of management: (1) the development of a true science, (2) the scientific selection of the workman, (3) his scientific education and development, and (4) intimate friendly cooperation between management and men.[1]

Although Taylor was an able efficiency engineer and the father of scientific management, he was not a clear and concise author. His writings do justice neither to himself nor to this important movement. A modern student has restated in the following brief form the essential principles of scientific management as enumerated by Taylor.

A. The improvement and standardization of the productive organization and of the material equipment of the plant. This involves the rearrangement of the plant equipment to secure the quickest routing; the reorganization of the managerial force on the basis of the division of function; the use of cost accounting; the improvement of storekeeping methods and the adoption of economic systems for classifying implements and manufactured products; the development of measur-

[1] Taylor, F. W., "Principles of Scientific Management," p. 69.

ing devices such as the slide rule and various other improvements over existing practice.

B. The improvement and standardization, for each job, of the acts or movements of workmen. Under the systems of management commonly in vogue, the management does not and cannot know that the great mass of traditional and habitual rule-of-thumb knowledge which workers use; it can, therefore, give them little help or advice and must leave them to carry out each task as they see fit. But "among the various implements and methods used" there is always one method and one implement which is quicker and better than the rest; and this one best method and best implement can be discovered and developed only through scientific study and analysis of all the methods and implements in use, together with accurate, minute, time and motion studies.

C. The standard task, based on an elementary time study and assigned by the planning department. The first uses of time study are in the elimination of unnecessary motions, the standardization of the operation, and the assignment to unskilled laborers, when possible, of routine operations not requiring skill. After the improvement of methods the movements are, if it seems necessary, timed again. The planning department then fixes a standard time—a "task"—for each operation, based on observation of the minimum, average, and longest times required for the operation. Then an instruction card is made out, informing workmen what motions to perform and what standard task has been set up.

D. Functional foremanship in which the single supervisor is replaced by a number—ideally seven—of specialized teacher-supervisors (inspector, gang-boss, speed-boss, repair-boss, time clerk, routing clerk, and disciplinarian) and the management substitutes friendly cooperation with the workers for the suspicious driving of the system inherited from the entrepreneur industrial organization.

E. The differential wage—a "bonus" or higher piece rate—is given to the worker who makes or exceeds the set task.[1]

4. Methods of Industrial Remuneration.—Management is interested not so much in lower wages as in the reduction of wages per unit of product. It will tend to favor any system of payment which will serve as an effective stimulus to increased production and which will not be accompanied by a corresponding waste or deterioration in quality.

On the other hand, the employee is opposed to any system of wage payment which tends to reduce wages in general or wages per unit of output. Organized labor is apt to resist any system which tends toward overdriving the worker. Under the lure of higher wages for increased production the worker is tempted to speed up or to work overtime until physical exhaustion or a permanent impairment of health results.

At the present time, the two basic systems of payment are the time and the piece wage. Other methods are modifications of these two forms of wage payment. Under the time-wage system the basis is a unit of time, such as an hour, a day, or a week. Under the piece system the unit of payment is a given amount of product.

[1] TUGWELL, R. G., "Industry's Coming of Age," pp. 31 and 32.

With time wages it is very difficult for the employer to quicken the workers who tend to adjust their pace to that of the slower workers. Reliance is placed on the foremen who have been termed "the first line of defense of industry." In the past foremen have often been selected like the slave overseers of antiquity, because of their power to drive the workers to increased productivity. Verbal abuse and the threat of prompt discharge have been used as whips on the backs of the idle, the slow, or the inefficient. Time wages are used where the measuring of the output of an individual worker is difficult, as in the construction work of unskilled laborers.

Piece work is less conducive to "soldiering on the job" than is time work. Hence, employers have sought to introduce it wherever possible. Piece work is very common among the semi-skilled operators of machines, where dexterity in simple operations is required but where real skill and expert craftsmanship are not involved. With piece work rather than time work, the inspector replaces the foreman and time clerk. He passes on the quality of the product and the number of accepted pieces determines the wages paid to a worker.

Although the individual worker may favor piece work because of the lure of high wages, organized labor is hostile to this system. Not only does it encourage the speeding up of the workers, it is, also, very easy of abuse. Bitter past experiences have made even the workers themselves suspicious of the piece system. After the production per worker has been increased, management has often cut the rate per piece. Either the employee must suffer a loss of wages or he must speed up to a still higher level of production. Wherever the piece rate can be fixed in a rather arbitrary manner by the employer, the greater efficiency of the workers is often rewarded merely by a cut in the piece rate.

The development of scientific management, however, has been accompanied by job analyses and time and motion studies. The scientific determination of a fair rate has made subsequent rate cutting less likely than in former years, unless a radical change is made in the process of manufacture.

Piece work also has been opposed on purely economic grounds. It has been charged that this system of wage payment is apt to sacrifice quality of product to quantity. This evil may be increased by the corruption of the inspector. During the World War, for illustration, in the manufacture of munitions for a foreign government, it was found that a considerable amount of the "inspected" ordnance was worthless.

The task wage is a compromise between the time and the piece system. Wages are fixed on a time basis, but unless the worker performs a certain standard amount of work within the allotted time he suffers a corresponding loss of wages. This system was in vogue some years ago among the Jewish clothing workers, where it contributed in part to the sweatshop evils.

Premium plans, as contrasted with the task wage system, are positive rather than negative. There is an existing wage scale based on either the time or the piece system. A standard amount of output or a given period of time is agreed on as a basic unit, and any excess of production or an increase in speed beyond the determined standard is rewarded by an addition to the regular wage. The recent development of scientific management and personnel administration has been accompanied by the creation of a number of premium plans and bonus systems.

The Halsey premium plan will serve as an illustration. Standard times are set for every job and a bonus or premium is offered to every worker who saves time on the job. But the bonus does not represent full wages for the time saved, as under straight piece rates, but only a fraction thereof, such as one-third or one-half. If the worker does not save on the standard time or fails to do the work in the allotted time, he receives merely his hourly wage. The Halsey premium wage is essentially a modified piece rate.

5. Possibilities of Scientific Management.—The advantages of scientific management, like those of machinery, should accrue to the employer, to the employee, and to society in general. Technological progress represents a superior economic adaption and increased production means increased real wealth. Hence, scientific management should result in higher standards of living for all, unless its gains are very unequally distributed. Its benefits to labor should be reflected in shorter hours, higher wages, and lower prices.

Taylor claims such results for his early experiments in scientific management. He wrote as follows:

> At least 50,000 workmen in the United States are now (1911) employed under this system; and they are now receiving from 30 to 100 per cent higher wages daily than are paid men of similar caliber with whom they are surrounded, while the companies employing them are more prosperous than ever before. In these companies the output, per man and per machine, has, on the average, been doubled. During all these years there has never been a strike among the men working under this system. In place of suspicious watchfulness and the more or less open warfare which characterizes the ordinary types of management, there is universal friendly cooperation between the men and management.[1]

Numerous more recent illustrations could be cited to show where the introduction of scientific management has resulted in greatly increased production and higher wages. One of Taylor's followers, for illustration, made an interesting experiment in the laying of bricks. After training the workers in the new methods, he averaged 350 bricks per man per hour as compared with the usual average 120 bricks.

Professor Irving Fisher summarized the case for scientific management as follows:

[1] Taylor, F. W., "Principles of Scientific Management," p. 28.

As an economist I would stress particularly the value of scientific management to labor—when as a matter of course, scientific management is as universal as the telephone or newspaper—I have little doubt that the welfare of labor will be double; in short that real wages will be twice as high as at present. In the end, labor gains the most from so-called "labor saving devices." Increased production means simply increased income to society, and the wage earner as a class usually profits the most in the end.[1]

6. Labor's Opposition to Scientific Management.—The Industrial Revolution was a period of painful adjustment, but its long run effects have probably been beneficial to the workers. Nevertheless, the introduction of power machinery was bitterly opposed by the craftsmen whom it supplanted. Organized labor has likewise opposed scientific management. Only in rare cases has the worker been able to visualize its long run advantages.

Scientific management has two objectives. The first consists in the systematization of industry by the introduction of improved and standardized methods of production. It separates managerial functions from laboring operations, hand work from brain work, and skilled labor from unskilled. The second objective is psychological rather than technological, for it consists of devices designed to stimulate the worker to increased production.

The first objective of scientific management meets with less opposition than the second one, although organized labor generally associates rather than distinguishes between these two aims. The second objective of scientific management is difficult to separate from the first, but it is the chief source of opposition on the part of labor. Workers particularly resent being treated as automatons, and especially to being driven to the limits of their physical and nervous capacity. Nevertheless, scientific methods will no doubt replace the former haphazard routine in industry, just as the machine has supplanted the hand tool.

Maximum production from a machine is a different problem from maximum production from a human being. The latter problem involves psychological inertia and physiological fatigue. Efficiency has been defined as maximum output with minimum effort. Scientific management has stressed the first factor, but often ignored the latter. The worker has often viewed scientific management merely as a ruse of the employer to speed up his employees to their utmost exertion. He is also frequently obsessed with the familiar "lump of labor" fallacy and fears that scientific management will rapidly lessen the total volume of employment and hence contribute to the general unemployment.

Organized labor also regards scientific management as a subtle attempt of employers to weaken labor organizations. It is the exact reverse of the union's policy of limitation of output. This raises the

[1] In an address delivered Dec. 4, 1924, before the Taylor Society.

question as to whether a fair day's work can be determined by either the trade union or by the efficiency engineer. Human differences are such that any leveling up or leveling down process may work injustice.

It is also contended that scientific management tends to reduce the mass of workers to the ranks of the semi-skilled, who take orders from functional specialists. Indeed, this new functional arrangement may be just as autocratic as the former "military" type of industry. Scientific management is also viewed as undemocratic because of the temptation to fit men to their jobs, rather than to place men in jobs for which they are best fitted by nature and previous training.

In the last place, the complex character of our modern industry makes it difficult for the worker to see the direct benefits to himself of improved methods in industry. Scientific management sometimes means that he suffers increased mental and physical strain without a compensating gain in the form of a shorter working day. Slightly higher wages are little compensation for the shortening of the working life and an early dismissal to the scrap heap of industry. The worker also contends that, in the division of the gains of scientific management, the employer has received the lion's share. He fails to visualize the general diffusion of its benefits in the form of lower prices for the commodities produced.

Taylor feared the result of a sudden increase of wages. His experiments proved to his own satisfaction that an increase in wages up to 60 per cent was beneficial, but increases beyond that point were conducive to shiftlessness, extravagance, and dissipation on the part of the workers. Organized labor has resented this statement and has further contended that, in the distribution of the gains of scientific management, the worker has rarely had an opportunity to test the effects of any great or sudden increase in wages.

Labor's opposition to scientific management has been stated as follows:

> The model workman, from the standpoint of the typical efficiency engineer, is the vigorous man who freely expends all of his surplus energy during the working hours and who utilizes his non-working hours only for recuperation and preparation for another day's work. It is not the purpose of efficiency engineering to allow the worker to depart from the door of the factory at night with more than a minimum of surplus energy for recreation, for family life, for civic duties, or for trade-union activities. In short, there is little in the actual program of efficiency engineering which indicates that the wage earner is to be given opportunity for individual development and the various paternalistic endeavors classified as welfare work have not been overlooked. A human machine rather than a man is the "model workman." One also finds little, or more accurately, nothing, in Mr. Taylor's book which indicates that he appreciated or sympathized with the viewpoint of the wage earner. Even the slaveholder of ante-bellum days was interested in "welfare work." But, of course, the slaveholder was interested in

the matter purely and solely for the purpose of increasing the efficiency of the slaves or of reducing the cost of production.[1]

This indictment of scientific management was truer a decade ago than it is today. The new, as compared with the old, scientific management represents human as well as mechanical engineering in industry. Constant improvements in the plant have been sought in the interests of human welfare, as well as in the interests of industrial efficiency. These two ideals have been found to be reconcilable and closely associated rather than conflicting and irreconcilable. Improved working conditions make for increased efficiency as well as greater welfare. Devices to protect the workers' safety and health and to reduce the strain and annoyance of modern industry are in no small measure the product of the efficiency engineer. The problems of industrial safety and health and the reduction of strain and fatigue were discussed in Chaps. IX and X.

7. Personnel Administration.—Scientific management has been supplemented by the new science of personnel administration. The latter has been defined as the "direction and coordination of human relations of any organization with a view to getting the maximum production with a minimum of effort and friction, and with proper regard for the genuine well-being of the workers."[2]

The best technical processes and the most scientific methods in industry will not reach their full fruition if the human element is ignored. Unhealthy and discontented workers are less efficient than healthy and happy employees.

Personnel administration seeks to improve the general working conditions of the plant so that the health, comfort, and safety of the workers may be advanced. In the second place, its aim is the reduction of excessive labor turnover by the more careful selection, placement, and training of workers. In the third place, personnel workers seek to eliminate friction between men and management and to promote better industrial relations. In the last place, they sometimes operate welfare programs among the employees. It is contended that there is a vital relationship between these four aims of personnel work and that of increased production which is the prime object of scientific management.

8. Functions of Personnel Departments.—One of the chief objects of personnel work is to improve the relationship between the worker and his work. The time and motion studies of early scientific management made the mistake of viewing this relationship purely as a mechanical one. Personnel administration represents human rather than mechanical engineering. It is an essential and supplementary part of the new scientific management of industry.

[1] CARLTON, F. T., "History and Problems of Organized Labor," p. 253.

[2] TEAD and METCALF, "Personnel Administration," p. 2.

The work of the personnel department consists of job analyses and placement service. Again, it handles the matter of transfers and ratings for promotion within an organization. The personnel department seeks to reduce labor turnover and to promote good will between men and management. It may also perform educational work for the further training of employees. Generally it supervises whatever welfare projects the firm may conduct for its employees.

Personnel administration makes job analyses of the various tasks within a given plant, and then draws up careful specifications concerning the personal as well as the technical qualities necessary for the successful performance of a given piece of work. With such information before him, the personnel officer can examine the specific skill and technique as well as the general mental, physical, and moral qualities of each applicant, as revealed by an interview, a possible examination, and a scrutiny of his references. Such an examination seeks to reduce "hiring and firing" by a more careful selection of employees.

The placement services of the personnel department reduce labor turnover. A frequent cause of dissatisfaction and industrial unrest is the fact that many workers are unfitted for their respective jobs. There is too much drifting in industry and too little guidance.

Transfers within the plant are also an important function of the personnel department. A man may be a misfit rather than a total failure. Before discharging him as incompetent, he might be tried at another kind of work within the same industrial organization. Thus, the worker comes to feel that the management is interested in his individual welfare and that big business is not utterly devoid of feeling. The personnel department can develop an *esprit d'corps* and a loyalty to the organization which will show themselves in increased production.

The personnel department may also perform educational work in the aims and processes of industry. It may give to selected applicants a brief course of training to promote efficiency in their prospective jobs. This may help the worker to visualize the relationship of his particular task to the industry as a whole and may reduce, somewhat, the stultifying character of the extreme specialization of modern machine production.

Unlike the older types of scientific management which widened the gulf between men and management, personnel administration stresses industrial morale as well as industrial efficiency. It serves as a clearing house in which petty grievances are discussed and eradicated.

The discharging and promoting of workers are often as arbitrary as the methods of employment. It sometimes happens that a good worker is discharged because of a mere whim, prejudice, or personal grudge of the foreman. It is true that discipline must be maintained if an industry is going to function effectively. The viewpoint of the foremen and other

minor executives must be considered, but their power of discharge should not be absolute.

The personnel department should supervise promotions as well as dismissals. Industrial unrest is the result not only of unwarranted discharges, but also of unmerited advances. The personnel department should strive to formulate standards of efficiency and to keep some records of the performances of the various workers within the plant. Different schemes of rating have been devised for various types of workers. Although they are easy targets for adverse criticism, such attempts seem like a step in the right direction.

9. Organization of Personnel Work.—As conditions vary greatly in different places, no standard plan of organization can be given for personnel work. Moreover, the human equation is ever present. In its final analysis, the best plan of personnel administration is the one which produces the best results for a given group of individuals under a given set of conditions. Although the details of administration should be elastic, it is important that responsibility be centralized in a given individual or personnel department.

The subdivisions or committees of the personnel department depend on the extent of its work. In addition to the fundamental employment and placement work, there may be divisions on industrial relations, health, safety, welfare, and education.

Personnel work is conditioned by a proper understanding and appreciation of the physiological, the psychological, and the sociological factors in industry. It requires not only special training, but also exceptional qualities of sound judgment and intelligent leadership. Failure will be the result of half-heartedness or inefficiency.

Close contact must be maintained with both men and management, in order to get the point of view of each side on a given matter. No project should be undertaken without first explaining its objects and methods to the workers. Understanding and sympathy are imperative to the success of the personnel department. A mediocre scheme which emanates from suggestions of the workers may fare better than a superior device which they regard as superimposed on them. Committees of the workers are necessary for the successful administration of such welfare programs as the personnel department may see fit to develop. Personnel work is educational as well as administrative, and care should be exercised not to expand until the ground is prepared.

10. Industrial Efficiency and the Education of Workers.—Under the former handicraft system of production the apprentice learned a trade under the direct supervision of the master worker. Thus, the medieval guilds were educational as well as economic organizations. But the Industrial Revolution, involving the factory system and the substitution of power machinery for the skill of the craftsman, has entirely changed

the character of industry. The modern demand for semi-skilled machine operators has been so great that there is now a relative dearth of skilled labor. Moreover, the conditions of modern industry present little opportunity for the adequate and general training of the workers within the plant.

The personnel programs of many employers have sought to meet this situation by the development of apprenticeship schools and general educational courses within the factory or mercantile establishment. The aim is not only to promote efficiency among the great mass of employees, but also to supply educational opportunities for exceptional individuals who desire to prepare themselves for advancement.

"Vestibule schools" are maintained by some large corporations for the training of new workers in repetitive operations. Sometimes instruction is given in all the elements of a certain occupation, as well as in elementary branches of general learning. Apprenticeship training is given in the schools of the Pennsylvania Railroad, the General Electric, and Westinghouse Electric companies, The National City Bank of New York, the John Wanamaker Store of Philadelphia, and many other organizations. Certain firms include "safety first" and hygiene in their educational programs. The presence of a large number of immigrants in industry has also led to the inclusion of Americanization programs for instruction in English, civics, and American ideals.

In addition to training the wage earners many concerns have found it desirable to provide courses for foremen and other minor executives. Their purpose is to provide instruction in plant organization and management, as well as to train for intelligent leadership in industry. Foremen have been termed "the first line of defense in industry," and they must be especially well prepared, not only for their respective work but also for the promotion of better industrial relationships between men and management.

11. Welfare Work.—This extension of the functions of management beyond the factory walls and into the leisure time of the workers has been termed "welfare work." It has been defined by Professor Commons to include "all those services which any employer may render to his work people over and above the payment of wages."

The stimulus to welfare work first came from the employment of a large number of women and children within factories and mercantile establishments, but it later spread to other workers. It is a far cry from the welfare work of a modern industrial establishment to the factory conditions of a century ago. During the past generation the concept of the functions of the employer has widened far beyond the mere matter of industrial production. Management is now regarded as having social as well as economic responsibilities. Thus, the United States Steel Corporation has spent millions of dollars in recent years for welfare work.

The various welfare schemes that have been developed include housing, recreation, education, health, safety, and thrift projects. They are sometimes directly under the control of the personnel department, sometimes directly under the supervision of the employer, and sometimes administered by joint committees representing both employers and employees. They are sometimes accompanied by schemes for profit sharing and industrial representation by employees.

In all welfare programs it is highly desirable that committees of the workers administer, so far as possible, the details of the scheme. Moreover, such programs should be developed gradually. They should be expanded only as rapidly as the sentiment among the workers seems to warrant. If wisely directed and democratically administered, welfare work should produce cooperation rather than antagonism on the part of the employees toward the employer. Instead of producing a resentment among the workers against management's intrusion into their methods of living and its interference with their leisure time, welfare work may be made to breed contentment and loyalty to the "corporation with a soul."

12. Housing Projects.—Because of the isolated location of many of its mines and furnaces the Colorado Fuel and Iron Company entered into housing projects for some of its employees. Similarly, Hershey, Pa., known as "the chocolate town," has been composed of attractive homes which the Hershey Company owns and rents to its employees.

During the World War the United States government built a small village just outside Camden, N. J., for the housing of the workers who were employed in the ship-building industries along the Delaware River. These homes are small but very attractive. They show what can be done in this direction by collective action. Model tenements have also been constructed by some cities and then rented at low rates to workers.

Bourneville Village, located a few miles from Birmingham, England, consists largely of the homes of the workers in the neighboring factory of the Cadbury Brothers. The company rents these houses to the workers and helps them to become home owners by permitting them to buy the houses on easy terms. Bourneville Village also contains a park and numerous recreational facilities. There is no dull uniformity in the character of these company houses. Although early company towns like that of Pullman were drab and ugly, recent ventures in both Europe and America testify by their architectural beauty and natural loveliness that such need not be the case.

13. Recreational Schemes.—Employers have been as reluctant to inaugurate recreational programs for their employees as to enter on housing projects. It has sometimes been found better merely to finance in part these projects and to leave their actual operation to some outside organization, such as the Young Men's Christian Association. The

industrial branch of this organization has cooperated very effectively with both men and management for the promotion of many welfare schemes. Witness the numerous branches of that and kindred organizations which have been established in great railroad and industrial centers.

In some cases, like that of the Illinois Steel Company, the management of the company itself has established club houses for its employees. They often possess reading rooms, lounging and smoking rooms, gymnasiums and other facilities for exercise, recreation, and social intercourse. Athletic fields and indoor halls are maintained by some firms who have organized teams among their employees. Baseball, basketball, and bowling contests are held among different firms and among different departments within a given firm. Illustrations are the Strawbridge and Clothier Department Store and the Disston Saw Works of Philadelphia.

It is important that the management of these recreational activities of the workers be administered by their own representatives. It is also desirable that there be some small contribution from all participants, in order that they may feel themselves a part of the plan and that any possible stigma of charity may be removed.

14. Social Service and Thrift Programs.—Many large firms maintain social service departments, while others subsidize existing social organizations in the interests of their own employees. The latter method is perhaps preferable to the former, because it avoids the multiplication of existing social organizations and because it eliminates the objection that the employer is prying into the private affairs of his employees. Again, the workers may organize themselves into permanent or temporary committees to visit the sick and to help restore other unfortunates to economic independence. Such a program may be subsidized and supervised by the personnel department. In special cases a visiting nurse or trained social worker should assist for the alleviation of distress or for assistance to families in raising their standards of living by a better budgeting of their incomes. This social service work should be correlated with the general health program.

Other welfare projects seek the promotion of thrift among the employees. They include Christmas or vacation funds, opportunities to buy the stock of the company on favorable terms, and building and loan associations for the purchase of homes. Illustrations are the home-building plans of the Midvale Steel and Ordnance Company and the stock bonus plans of the Stetson Hat Company. Profit sharing and employee ownership of stock will be treated in the following chapter.

Many companies have pension systems by which they reward the long and faithful services of their employees. Unfortunately, as was seen in Chap. X, these private pensions are often inadequate in amount and are not applicable to all workers. Hence, the necessity for social insurance of various types.

In the absence of such social insurance, or in addition to it, the welfare programs of many companies include the maintenance of disability funds for the care of the sick, injured, widowed, and orphaned members of their large industrial families. Such benefit plans give financial assistance in time of need, encourage thrift among the workers, develop a fraternal spirit among them, reduce labor turnover, and tend to induce loyalty to the company on the part of its employees.

15. Advantages and Disadvantages of Welfare Work.—Organized labor has not taken a very sympathetic attitude toward the welfare work of management. It has been stigmatized as "capitalistic feudalism" or as "benevolent despotism," which merely increases the dependence of employees on their employer. The workers sometimes resent attempts to influence the ways in which they spend their leisure time. It is further charged that welfare work has often been given not in addition to wages but rather in lieu of wages, that is, as a substitute for higher wages.

Organized labor has insisted that the workers be given a greater share in the product of their labor and that they be permitted to spend it as they please. It is felt that the paternalistic schemes of some employers reduce the workers from their high level as free men to that of "wards of capitalism." In the last place, it is contended that elaborate welfare schemes have sometimes been inaugurated, not for humanitarian reasons but to advertise the products of the employers and to build up the commercial asset of good will.

The advocates of welfare work point out in reply that the low standards of living of many workers' families are due not only to low wages but also to the fact that their wages are not spent economically. Higher standards of living are conditioned not only by more efficient production but by more efficient consumption.

In the second place, welfare schemes can give to the workers the benefits of large-scale production and wholesale purchases. The company store or the company home should be able to give the employee a better product for the same money. Only in rare cases is any compulsion exercised on the worker to induce him to buy at the company store or to live in a company house. This is necessary only when the plant is located in some new section on the frontier of civilization. In most cases the workers are free to choose for themselves.

16. Summary.—Scientific management attempts to apply the scientific method to the problems of increased production. It involves not only the improved organization of industry but also its standardization. Early time and motion studies sought to discover the best method of doing a particular piece of work and to eliminate the former haphazard methods. Scientific management separates skilled from unskilled work,

routine from exceptional tasks and the managerial functions from those of the workmen.

The common methods of industrial remuneration are the time wages and piece work. The latter method of wage payment is based on the amount of work done and not on the length of time served. Although the individual worker may favor piece work because of the possibility of increased wages, organized labor is opposed to the system because it speeds up the worker and because of the practice of cutting piece rates.

The task wage and premium plans are modifications of the two basic methods of industrial remuneration. The former is negative but the latter is positive. The development of scientific management has been accompanied by the development of the differential wage, or a system of bonus, or premium payments for increased speed or quality.

Like the invention of power machinery, scientific management offers to the worker the possibility of increased wages and higher standards of living. Nevertheless, the worker feels that he has not shared proportionately in these gains. Again, he objects to the impersonal and driving effects of scientific management.

Personnel administration has supplemented the technical efficiency of scientific management by stressing physiological, psychological, and sociological factors in industry. It has attempted job analyses and the proper selection and placement of workers in industry. In the second place, personnel administration seeks to reduce the friction between men and management by a careful and impartial supervision of transfers, promotions, and dismissals. In the third place, it aims to improve the general working conditions within the plant, because of its conviction that increased production is conditioned not only by excellent industrial engineering but also by the presence of contented and physically fit workers. In the last place, the personnel department performs or supervises industrial education. This includes not only technical but also general education. It involves safety, health, civic, and other forms of social education, as well as that for greater industrial efficiency.

The ideal of industrial efficiency must be supplemented by that of human welfare. The program of the progressive employer includes not only improved industrial management and better personnel administration but also increased welfare work. Welfare work represents the extension of managerial supervision beyond the walls of the factory. It includes all those services which an employer performs for his work people over and above the payment of wages. Welfare work includes housing projects, recreational schemes, social service, and thrift programs. Although welfare work has many economic and social advantages, it has been criticized by organized labor as "capitalistic feudalism." The workers have sought not only higher wages and shorter hours but also

the freedom to spend their wages and leisure time in their own fashion without the interference of the employer.

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Questions for Discussion and Topics for Investigation

1. What are some of the fundamental concepts of scientific management?
2. On what grounds is it attacked by organized labor?
3. Contrast the economic gains and social costs of scientific management. Are the latter inevitable? Why or why not?
4. Distinguish between time work and piece work and between task wages and premium plans.
5. Show how personnel administration supplements scientific management.
6. Outline the proper functions of a personnel department.
7. How can the personnel department reduce excessive hiring and firing?
8. What do you understand by welfare work? Outline various types.
9. On what grounds is welfare work criticized by organized labor?

Topics for Investigation

1. The pioneer work of Taylor in scientific management.
2. The recent changes in scientific management.
3. Scientific management and organized labor.
4. Organization and activities of the personnel department of a given plant.
5. Education of the workers within industry.
6. Welfare projects of an industrial concern with which you are familiar.

CHAPTER XVIII

EMPLOYEE REPRESENTATION AND PROFIT SHARING

INDUSTRIAL DEMOCRACY AND THE COPARTNERSHIP OF LABOR

1. Political and Industrial Democracy.—The worker as a citizen enjoys the right of suffrage, although the political machine sometimes distorts this theoretical democracy into practical corruption and absolutism. The citizen as a worker generally has no such right to participate in the formation of the policy of the industry in which he labors. Very often he is a mere cog in its intricate machinery.

Just as political absolutism has given way to political democracy, so industrial absolutism is now apparently on the wane. It is a far cry back to the absolute monarchy of Louis XIV who was able to say, "I am the state." It is also a far cry back to a generation ago in America, when an officer of a New York street railway company refused arbitration with his employees on the grounds that they were his servants whose duty it was to do his bidding as long as they were in his employ.

The absence of political democracy results in revolutions for which the ballot box is a substitute. The absence of industrial democracy results in economic unrest which is expressed in strikes and other forms of industrial warfare rather than through peaceful channels.

It should be remembered that democracy is an ideal and a relative term. There is no such thing as absolute democracy, any more than there is absolute justice, absolute goodness, or absolute truth on this earth. Industrial democracy as well as political democracy is a progressive concept, for the ideal advances as society progresses toward it. Again, the pathway of democracy, whose upward course is irregular, if not uncertain, is strewn with fantastic experiments, failures, and hypocrisy as well as with noble and practical achievements.

The success of democracy is conditioned by the education of a people. Some recently liberated nations of Europe have discovered that democracy cannot be made safe merely by the elimination of kings and emperors. "Benevolent despots" in industry also seem to be passing off the stage in favor of the new democratic ideal of the partnership of labor. Such a situation, however, is conditioned by the spread of public education among the masses and by the development of broad and intelligent leadership in industry.

Industrial democracy may be fostered by political institutions or it may grow up independently of the state. Thus, mediation and arbitra-

tion are often accomplished by the intervention of state boards or governmental officers. On the other hand, the trade agreements of joint industrial conferences are accomplished without governmental interference.

Industrial representation may be achieved either by cooperation with organized labor or independently of organized labor. Thus, trade agreements are made for some occupations in the joint conferences of employers and organized labor. On the other hand, industrial representation may be achieved within company unions which embrace only the employees of a given firm. Industrial representation by and through trade unions is common in Europe and Australasia, but employee representation by and through company unions is now very popular in the United States. At present about 95% of employee representation in this country is by company unions without trade union affiliation.

2. Industrial Representation.—Industrial representation is the participation of the workers in the control of their working conditions. It is representative government in industry. This new economic ideal is reflected in such organizations as shop committees, works councils, and industrial councils.

A shop committee is confined to one department of a plant, but a works council attempts to represent all the employees of a factory. It would seem, however, that this early distinction between shop committees and works councils is breaking down. At present the two expressions are used interchangeably.

In addition to local organizations of the employees of a single business concern there may be larger industrial councils which include representatives of an entire industry of a whole geographical region. Thus, there may be district industrial councils and Federal industrial councils. All of these industrial organizations are similar in that they include representatives of the employees and of the employers, of labor as well as management.

The primary purpose of industrial representation is the reduction of industrial unrest by attempting to bridge the gap between men and management. The aim is not merely the elimination of strikes and other industrial conflicts, but the promotion of a better mutual understanding between labor and capital. Works councils and industrial parliaments are designed to serve as peaceful channels for the rubbing away of friction points between employers and employees. They serve as agencies of education in the problems and points of view of the opposing sides of our present industrial alignment. Better mutual understandings, in turn, will promote industrial good will and greater efficiency in production. Although sometimes promoted by practical and even by selfish motives, works councils are also the expressions of the new democratic ideal of copartnership in industry.

3. Development of Industrial Representation in Europe.—Although industrial representation is a fairly new movement, the germs of such an idea are surprisingly old. It is interesting to note that such a plan was presented by the Industrial Commission of the German Constitutional Assembly, held at Frankford in 1849, during the temporary ascendancy of the great wave of democracy which swept central Europe during the middle of the past century. It is even more interesting to observe that this plan of industrial representation, which apparently had been dead and buried for three-quarters of a century, was very similar to the plan of industrial representation which was incorporated in the law of Germany in 1920.

Although works councils and industrial representation are commonly thought of as British in origin, works committees in some form have existed in Germany as far back as 1873. It is probably true, however, that in the opening decades of the twentieth century, particularly just before and during the World War, the greatest progress toward industrial representation was made in England. The British Labor Party and Guild Socialists have been very active in the matter of industrial repre-sensation. Although the true socialist ideal of such industrial representation is that of the workers only, the practical result has been the organization of numerous industrial councils composed of both employers and employees.

The British Reconstruction Committee Subcommission on Relations between Employers and Employees, which has generally been referred to as the Whitley Committee, made in 1917 its famous report which contained an elaborate scheme of industrial representation. It sought to attack in this fashion an important cause of industrial unrest and to continue the economic cooperation of labor and capital which the war had been promoting. Participation in the control of industry then seemed more fundamental even than schemes of profit sharing.

The Whitley Committee, therefore, recommended not only works councils but also district and even national joint industrial councils in all possible industries. Great flexibility of organization was desired because of the very divergent character of different industries. The Industrial Councils Division of the British Ministry of Labor was created for the purpose of assisting in the formation of these industrial councils. Unlike President Wilson's second industrial conference, which was greatly influenced by the Whitley report, practical applications of this scheme have been made in Great Britain.

4. Development of Employee Representation in the United States.—Industrial representation exists in the United States, but not on the same scale as in Great Britain, Germany, and some other European countries in which the movement is older.

Again, industrial representation in America has been confined chiefly to the works councils of individual firms. It has not yet developed into national or even district parliaments of industry, unless the joint conferences of certain highly unionized occupations are so considered.

Moreover, employee representation within the United States has developed apart from the organized labor movement rather than in conjunction with it. In this country the impetus has come from neither the government nor from trade unionism but rather from management itself. Employee representation has evolved on this side of the Atlantic from what was regarded as the very dubious experiment of a relatively few liberal employers.

The earliest recorded works council to be actually operated in the United States was that introduced by the Nerst Lamp Company in Pittsburgh in 1904. The Nelson Valve Company of Philadelphia likewise established a works council of a different type in 1907. Both of these companies have changed hands and both works councils have disappeared.

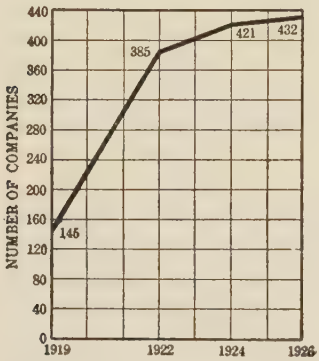
In 1911, however, a plan was introduced by Hart, Schaffner, and Marx Company of Chicago which is still in operation. This is the oldest plan of employee representation now in existence in the United States. Another pioneer in the field of works councils was the Packard Piano Company of Fort Wayne, Ind., which introduced in 1913 a plan of industrial organization modeled on the organization of the Federal government of the United States. In 1915, the White Motor Company and the Colorado Fuel and Iron Company introduced plans of employee representation.

The movement toward works councils developed very slowly in the United States in the first decade and a half of its existence. In the year 1917 there were only about eight new installations of works councils in the United States. Indeed, so few were the American experiments in employee representation, and so little publicity had been given to what works councils were in existence, that the program as outlined in the Whitley Report was widely heralded as an English discovery which was unknown in the United States.

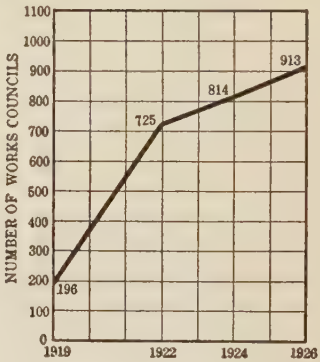
5. Recent Growth of Employee Representation in the United States. Due to the demands on industry caused by our entrance into the World War, several Federal agencies actively promoted employees committees in 1918. In the years following the signing of the armistice, however, most of these industrial councils, established under war-time pressure, went out of existence. On the other hand, the number of voluntarily introduced works councils has greatly increased. Practically negligible before 1917, there were in 1926 over 900 works councils in more than 400 separate companies and including about a million and a third of workers.

The following table illustrates the growth of employee representation in the United States from 1919 to 1926, as judged by the number of

CHART 40.—NUMBER OF COMPANIES USING EMPLOYEE REPRESENTATION AND NUMBER OF WORKS COUNCILS



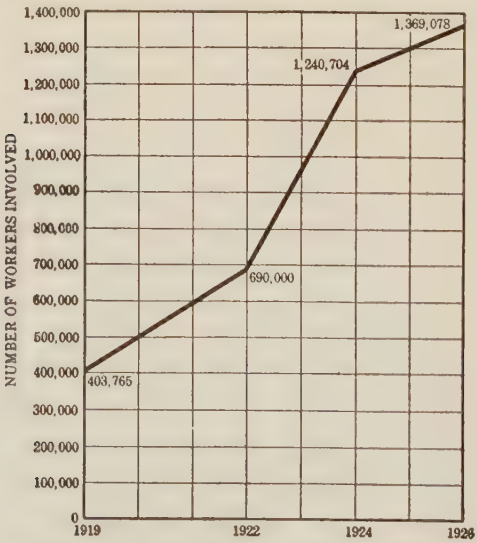
Number of separate companies using employee representation or works councils.



Number of separate works councils—some companies having more than one council.

Reproduced by permission, McCULLOUGH, E. W., "*Employee Representation or Works Councils,*" *p.* 5.
Statistics are those of the National Industrial Conference Board.

CHART 41.—NUMBER OF WORKERS UNDER REPRESENTATION



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Statistics are those of the National Industrial Conference Board.

separate companies using employee representation or works councils, by the number of separate works councils, some companies having more

than one council, and by the number of workers under such employee representation.

GROWTH OF EMPLOYEE REPRESENTATION FROM 1919 TO 1926[1]

Year	Number of separate companies using works councils	Number of separate works councils	Number of workers under representation
1919	145	196	403,765
1922	385	725	690,000
1924	421	814	1,240,704
1926	432	913	1,369,078

[1] Statistics of National Conference Board, reproduced from "Employee Representation or Works Councils," pp. 5 and 6, published by Chamber of Commerce of the United States.

Charts Nos. 40 and 41 show graphically the findings in the above table.

The increase in the number of separate companies using employee representation was especially rapid between 1919 and 1922, but the increase in the number of employees involved was most rapid between 1922 and 1924. Apparently, large corporations with a great number of employees became converts to industrial representation in the more recent years. This is particularly interesting because many, although not all, of the pioneers in works councils were small concerns. Indeed, it has even been alleged that employee representation, as well as profit sharing, could be accomplished successfully only by small firms.

6. Types of Works Councils.—Plans for industrial representation vary greatly because of the divergent size and character of different industrial establishments. There are two general types, however, which may be termed the "governmental" type and the "committee" type. There are, of course, numerous modifications and intermediate plans of these two general types of works councils.

The governmental type of employee representation is modeled on our political institutions, particularly on the national government of the United States. Hence, the term "industrial democracy" is sometimes used to refer to this particular type of employee representation rather than to the entire movement.

The governmental or industrial democracy type of employee representation provides for a cabinet of the executives of the plant, a senate of the foremen, and a house of representatives of the workers. The secret ballot is generally used and the qualifications of electors are carefully specified. The legislative procedure follows that of the national government with such modifications as are dictated by individual expediency. Such was the plan followed in general by the Nelson Valve

Company in 1907 and more specifically by the Packard Piano Company in 1913.

Although many of the older plans of employee representation were of this sort, the industrial democracy plan of employee representation is now decidedly in the minority as compared with the committee type. Of companies having works councils in 1922 only about 11 per cent were of the industrial democracy type, whereas about 89 per cent were of the committee type. In 1926 these percentages were 6 per cent and 94 per cent, respectively. Hence, the governmental or industrial democracy type, as contrasted with the committee type, of employee representation is numerically unimportant. Moreover, its importance seem to be decreasing rather than increasing. Hence, it may be said that the industrial democracy plan of employee representation is now chiefly of mere historical interest.

The committee type of employee representation provides for a joint committee of employers and employees, in which representatives of the workers confer directly with management about the various problems which arise within the plant. The pioneer works council of the United States, that introduced by Nerst Lamp Company in 1904, was of this type. The White Motor Company also adopted in 1915 a rather simple shop committee plan for their much larger number of employees.

7. Typical Plans of Employee Representation.—The "Colorado plan" of the Colorado Fuel and Iron Company is a rather elaborate adaptation of the committee plan of employee representation. It was created after considerable study and finally put into effect in 1915. Unfortunately, there has been a long period of suspicion, strikes, and industrial unrest in the mines and plants of this company in Colorado. Nevertheless, the Rockefeller management regarded this plan of employee representation as sufficiently successful to warrant its application to the Standard Oil Company of New Jersey. A significant feature of the Colorado or Rockefeller plan is that no provision is made for the separate meeting of the representatives of the employees. However, joint conferences of representatives of both employees and employers are held every 4 months. Each year there are elected joint committees on industrial cooperation and conciliation, on safety and accidents, on sanitation, health and housing, and on recreation and education. Provision is also made for arbitration, if the joint committee on industrial cooperation and conciliation is not able to settle a dispute of its own accord.

In 1919, the International Harvester Company applied works councils in nearly all of its plants for the joint determination of some policies regarding wages, hours, working conditions, health, safety, education, and recreation. Provision has also been made for a board of arbitration to settle controversial points.

Some committee plans of industrial representation also provide for the regular and permanent representation of the employees on the board of directors. Such is the plan operated by the Proctor and Gamble Company, manufacturers of soap in Cincinnati, and by William Filene Sons' Company, a large department store in Boston.

Although most works councils in this country are the products of company unions from which trade union delegates are excluded, such is not always the case. Some companies having works councils have also agreements with their respective unions, as well as with their employees. Plans which combine union recognition with the shop committee features have been worked out by the Baltimore and Ohio Railroad and by the Hart, Schaffner, and Marx Company.

A disastrous street car strike in Philadelphia in 1910 led to a complete reorganization of the management of the Philadelphia Rapid Transit Company. A Cooperative Welfare Association for the workers was created, and finally, in 1918, a scheme of employee representation was adopted. Men and management now settle their difficulties through branch committees, department committees, a general committee, and a board of arbitration. There is also provision for profit sharing and for the ownership of the stock of the company by the employees. Moreover, when and if the overwhelming majority of the employees demand affiliation with the carmen's union, that alternative is open. Hence, this program of employee representation, introduced by the Mitten Management for the car men of Philadelphia, has been said to be democratic. Its practical success has been demonstrated by almost two decades of freedom from strikes and by the failure to date (1929) of the car men to demand union affiliation.

Numerous other illustrations of employee representation plans might be given, but these will be sufficient to exemplify the general types. Administrative detail is far less important to the general student than the underlying principles and broad functions of works councils.

8. Essentials of Works Councils.—It goes without saying that the occasional meeting of an improvised committee or delegation of the workers with the management for the consideration of certain special, temporary, or emergency problems does not constitute employee representation. In order to be regarded as a works council the arrangement must be on an organized basis and of a continuous nature.

There must also be a definite procedure and an equally definite method of representation agreed on in advance by both employer and employees. There need be no written instrument of government, however, nor a rigid definition of relative powers and functions. Too great a rigidity of structure renders difficult the modification of its organization under the stress of circumstances. In such a crisis the whole scheme may be broken to pieces rather than be modified in part.

It is interesting to note how ephemeral were some of the complex and artificial programs of employee representation established in this country during the World War. On the other hand, the institutionalized practices of certain firms, the product of evolution, change and experience, have survived. They will probably contribute more to employee representation than many lengthy and rather idealistic documents which represent the crystallization of certain complex, artificial, and rather rigid plans of works councils and industrial democracy.

Even more important than the plan of organization followed by any plant or company is the relationship of the company union to the general organized labor movement. Thus, employee representation is provided by many companies in lieu of trade unionism. Many firms which maintain works councils as well as profit sharing, stock ownership, and welfare schemes for their employees are frankly or secretly open shop or even anti-union in their attitude.

9. Employee Representation and Craft Representation.—That form of industrial representation known as "works councils" or "employee representation" has been defined as follows by the National Industrial Conference Board:

> The Works Council may be described as a form of industrial organization under which the employees of an individual establishment, through representatives by and from among themselves, share collectively in the adjustment of employment conditions in that establishment.[1]

An interesting point in this definition of works councils is that this form of industrial representation is along the lines of the business organization rather than by crafts or industries. It is essentially the representation of workers as employees of a particular plant. In other words it is industrial representation through company unions and not through trade unionism. The walking delegate is not an employee and, hence, is ineligible for representation in works councils.

Such a definition of works councils as purely employee representation by and through company unions is rather narrow, but it describes rather accurately the situation in the United States. In Great Britain and numerous other countries works councils are frequently organized in conjunction with the existing machinery of trade unionism, but in the United States they have developed apart from organized labor.

The extension of works councils into broader industrial parliaments generally involves national unions and trade unionism. Such is the situation in Great Britain and numerous other countries in which organized labor is far stronger than in the United States. The failure of industrial representation in the United States to develop beyond works

[1] "Employee Representation or Works Councils," published by the Department of Manufacture, Chamber of Commerce of the United States, E. W. McCullough, Manager, p. 4.

councils into district and national industrial councils is because of the great gap between company unions and trade unionism. Management often favors the former but fears the latter. Hence, its reluctance for expansion beyond the employees of a single plant or corporation.

It must be remembered that trade unionism is a form of industrial representation, although its basis is by craft or industry rather than along the lines of the business organization. The functioning of collective bargaining in the form of trade agreements between organized labor and associations of employers is between organizations whose bargaining power is relatively strong and nearly equal to that of each other. Hence, this form of labor representation and industrial parliamentarianism is perhaps fairer than that of company unions, in which the employees have little bargaining power. These great industrial parliaments which formulate trade agreements are more typical of democracy—at its best and at its worst—than are the benevolent absolutisms of numerous company unions. Works councils always represent industrial government of the employees, often for the employees, but rarely by the employees.

10. Objectives of Industrial Representation.—The chief mutual objective of employee representation is the promotion of industrial good will through the better understanding of men by management and of management by men. It is invaluable for purposes of personal contact, if the firm is engaged in a program of health or safety, or in comprehensive welfare projects.

The chief objectives of management in furthering employee representation are to secure higher industrial efficiency and a greater economy of production. Again, it tends to minimize the likelihood of strikes, sabotage, and other forms of industrial conflict that cut down production. In brief, management has come to feel that a contented employee, as well as a healthy one, is more efficient and productive than a discontented worker.

From the point of view of the workers, employee representation gives them an opportunity to present their grievances to the management in a fairly direct or representative fashion. Again, works councils are fairly effective devices for the enforcement of the decisions of boards of adjustment or arbitration. In these ways working conditions may be improved or prevented from retrograding.

The following objectives of employee representation have been stated from the point of view of management:

1. To promote justice in relationships between working men and management.
2. To insure equitable consideration of grievances and complaints of employees.
3. To furnish worker a means of exercising an appropriate measure of control over his own conditions.

4. To provide means of collective dealing between employer and employee.
5. To facilitate exchange of information and understanding between management and working force.
6. To increase efficiency and loyalty of labor.[1]

11. Results of Employee Representation.—The results of employee representation are difficult to determine, for the movement in this country is still in its experimental stage. Most statements of its results vary, as recounted by management and by organized labor or as related by different employers. In general, these expressions of results are very similar to modified statements of the objectives of the program as stated in the last section.

A number of attempts have been made to secure abundant and periodic reports of the success of the various plans now in operation. Thus, a report entitled "Employee Representation in Industry" of the Committee on Labor Relations of the Cleveland Chamber of Commerce in 1923 attempted to evaluate sixteen plans then in operation in that city. The findings were rather impressive, for in nearly every case both executives and employees felt that employee representation had actually succeeded in creating a better leadership and the promotion of economic education among the workers. Some employers recorded the development of a more intelligent and sympathetic understanding of their mutual industrial problems.

In most cases it was felt that such schemes had improved the morale and cooperation of the workers, and in the majority of cases that they had decreased the rate of labor turnover. In some cases it was felt that the plans had stimulated production, increased efficiency, and even produced some valuable suggestions. On the other hand, several employers stated that they did not see that the introduction of plans of employee representation had been directly productive of profit.

12. Limitations of Employee Representation.—Employee representation is not a panacea for all industrial ills. Indeed, it is more of a preventive than a cure for labor disturbances. Although it may tend to reduce industrial conflicts, employee representation will not inevitably prevent strikes. It cannot be expected to produce immediate and lasting results, for it takes time and study to develop skill and sincerity on the part of management and loyalty and confidence on the part of the workers.

The success of industrial representation is dependent on intelligent labor leadership as well as on the sympathy and vision of employers. Great precautions should be taken in the introduction of any such schemes. Many have failed because they were applied without any previous attempt to create a sentiment in favor of them among the workers. Sudden liberty may spell license to the irresponsible laborer.

[1] Cowdrick, E. S., "Management's Handbook."

13. Criticisms of Employee Representation.—Justly or unjustly organized labor has looked askance at company unions and has insisted that labor must work out its own salvation by means of its own organization and by means of its own weapons of collective bargaining. In 1919, the American Federation of Labor formally expressed its objections to company unions or plant systems of collective bargaining. The charges of unfair elections and of intimidation of representatives were made. It was further contended that the company representatives attempted to divert the attention of the workers from the real objects of collective bargaining into such items as safety-first movements and educational programs for increased efficiency and greater production. Again, company unions were regarded as lacking in power and in danger of becoming subservient implements of employers' associations. Behind all these arguments lurked the great fear that the whole organized labor movement would be weakened.

On the other hand, many employers are also opposed to industrial representation but for different reasons. They insist on their individual right to run their own businesses in their own way. Consequently, they resent attempts of their employees to dictate or to pry into what they consider their own affairs. Other employers are sympathetic toward a participation by the workers in the control of industry, but they are very skeptical of labor's ability to do this in an intelligent fashion.

14. Nature of Profit Sharing.—Greater participation in the product of industry as well as in the control of the industry is another aim of the labor movement. The promotion of industrial peace has found expression in profit sharing as well as in industrial representation.

Although labor has attempted through collective bargaining to increase the share of national income which goes to wages, it has been unable or unwilling to participate in the financial risks of industry. Although demands for increased wages have emanated from the workers, schemes of profit sharing have generally come from employers.

Profit sharing may be defined as a method of industrial remuneration by which the employee receives in addition to his regular wage a definite share, fixed in advance, of the profits of the business. Thus, profit sharing does not eliminate the wage system, but exists with it as an extra financial inducement to increased production or to decreased waste.

In addition to this objective of increased productivity and efficiency, profit sharing has been regarded as a means of reducing labor turnover. It has been introduced by certain socially minded employers for the reduction of industrial unrest as well as for the promotion of efficiency. On the other hand, profit sharing, as well as employee representation, welfare work, and pension plans, has been introduced also for advertising purposes. It has also been favored by management as a method of strengthening company unions at the expense of trade unionism.

15. Types of Profit Sharing.—Profit sharing may exist in many different forms which fall into three general groups. In the first place, it may take the form of a cash distribution of profits. At the expiration of a definite period of time profits are computed in a manner formerly decided on, and then distributed to the workers as cash bonuses. In the second place, profit sharing may take the form of a distribution of shares of stock in the company. In the third place, profit sharing may take the form of pensions, annuities, or other types of deferred savings.

Profit-sharing schemes may also be classified according to the degree that they approximate true profit sharing. Many so-called "profit-sharing" schemes represent merely the payment of a bonus in times of prosperity without any real effort to make this bonus conform to net profits. Again, the sliding-scale method of profit sharing is not an accurate nor a proportionate method of profit sharing. The profits shared with the workers vary with the price of the product rather than with the net profits of the business organization.

Profit sharing must be distinguished from gain sharing. The former method treats the workers as a group or as a number of groups. The total profit is divided among the total number of workers according to some accurate or rough measure. It makes no effort to determine what contribution to profits has been made by the individual worker and to reward him accordingly. Gain sharing, however, has this objective. As under piece work the individual worker is rewarded according to individual productivity. Although the worker is paid by the time rather than by the piece rate his individual productivity is measured. Any excess beyond a previously determined fair rate is correspondingly rewarded out of the profits of the firm. Gain sharing is not related to the cooperative movement so closely as is profit sharing.

16. Early Development of Profit Sharing.—Just as works councils had their inception in Germany and England, so profit sharing had its beginnings in France. The first experiment was conducted as far back as 1842 by a house painter and decorator named LeClaire. In 1844 the Paris and Orleans Railroad also adopted a profit-sharing scheme. One of the most successful profit-sharing schemes of all Europe was established by Andri Godin at Guise. The movement progressed very slowly, however, until the closing years of the nineteenth century.

In 1865, profit sharing was introduced into Great Britain by H. Briggs and Company in the Whitwood coal mines of Yorkshire. The failure of this plan 10 years later discouraged the further development of profit sharing for some time. In the closing decade of the nineteenth century, however, the South Metropolitan Gas Company tried the experiment. The original provisions were that each workman was to receive 1 per cent dividend on his year's wages for every penny reduction in the price of gas per 1,000 cubic feet. Later provisions were added to encourage

workers to leave their profits in the business in exchange for stock certificates. Industrial representation schemes for employees were also included.

In 1909, the late Lord Leverhulme introduced a copartnership scheme in the famous soap manufacturing plants of the Lever Brothers Company. Partnership certificates were issued to all desirable employees who were twenty-two years of age and who had been with the company for 4 years. Profit sharing was provided by participation in the regular dividends of the company. Although employees as such were not represented in the management of the industry, nearly all of the directors were former employees of the company. An elaborate welfare program has also been carried on by this firm for its employees.

One of the first experiments in profit sharing in this country was introduced in 1870 by a New York carriage building firm. In 1886 there was inaugurated one of the most successful profit-sharing plans in the United States, namely, that of the N. O. Nelson Company of St. Louis. The original scheme provided that 6 per cent interest should be paid on the capital invested and that profits in excess of that amount should be divided proportionately between the capital and the total wages funds for the year. Later changes were the creation of a reserve fund out of a 10 per cent allowance each year and the provision that profits were to remain with the company until they were large enough to be distributed in the form of stock certificates to the employees.

In 1887, profit sharing, which the company later supplemented by employee representation, was established by the American soap manufacturing firm of Proctor and Gamble of Cincinnati. The scheme originally provided for cash payments of profits to employees in the same ratio that wages bore to the total expenses of production. Stock dividends were later substituted.

A new impetus was given to the general movement in 1872 by the formation of the Association for the Promotion of Profit Sharing. Most profit-sharing schemes, however, have been short lived and many of them have been failures.

17. Sliding Scale of Profit Sharing.—The simplest form of profit sharing is what is known as the "sliding scale." The basic assumption is that profits tend to vary directly with the price of the product. In such arrangements there is generally a minimum level on this scale below which wages cannot fall, no matter how precipitously prices may drop. In other words, the employer must always offer at least a living wage.

It should be remembered, however, that the enterpriser will close his plant rather than operate under prohibitive costs of production. In other words, this guarantee of a minimum wage merely means that the worker must accept the alternative of unemployment rather than that of a wage lower than the prescribed minimum.

The sliding scale has been used with some success in the metal and mining industries where price changes are frequent and necessitate constant changes in wages. Under this system of sharing profits wages tend to rise automatically in periods of high prices and prosperity. There is no possibility of concealing profits, for the price barometer of prosperity can be read by all workers.

The very simplicity of this scheme is a disadvantage as well as an advantage. Although possessing administrative ease, it has certain economic defects. Price changes are only very rough indicators of profits. Thus, the anthracite mine owners protested against the award of the Strike Commission of 1902. They contended that the price of coal would continue to rise as it became increasingly necessary to sink deeper shafts and to mine less accessible anthracite. Hence, the rising price of coal represented increasing expenses of production rather than greater net profits.

18. Direct Profit Sharing.—The deficiencies of the sliding scale have led to attempts at a more scientific division of profits. In order to determine net profits it is necessary for the enterpriser to fix in advance the value of his services to the business and to pay himself a fixed salary in addition to the interest on the capital he has invested. After all expenses of production have been deducted, the net profits are divided among enterpriser and workers according to some definite ratio previously agreed on.

Although this scheme of profit sharing is more scientific than the sliding scale, it has obvious administrative difficulties. It is difficult for some workers to understand why the enterpriser estimates his own services at so high a figure. Again, the necessary publicity as to expenses and profits may be detrimental to the business. On the other hand, if a policy of secrecy is maintained, there may be suspicion on the part of the employees that the books have been unfairly kept.

This direct type of profit sharing has been successfully applied chiefly by small firms where the workers know the enterpriser intimately and trust him implicitly. Again, it seems to require intelligent workers as well as honest and able enterprisers.

There are some large firms, however, which have successfully applied this form of profit sharing. The enterpriser is generally an officer of the company whose salary is as definitely fixed as the wages of the workers. It is a fairly easy task to total the wage bill, the salary bill, the interest on the capital investment, and other costs of production. Profits are then divided between men and management according to some previously agreed on plan.

Experience has shown that profit sharing has succeeded in times of prosperity, but that it has often gone down on the financial rocks of depression. Workers are willing to share profits, but they are unwilling

or unable to share losses. Consequently, it has been found advisable to set aside each year a certain percentage of the net profits as a reserve fund for periods of depression.

19. Deferred Profit Sharing.—The third type of profit sharing is that of deferred savings and insurance. Instead of a cash bonus an equivalent sum is placed to the employee's credit. Sometimes these accounts may be drawn against, but often they are regarded as inviolable until the employee has reached a certain age or has served a certain number of years with the employer.

The accumulated profits of the employee are represented by various sized shares in the capital investment of the enterpriser who regularly pays interest on them according to some fixed rate. Again, they may operate as funds for the granting of annuities or insurance. Participation in a strike or a dishonorable discharge may result in the forfeiture of at least a part of the accumulated profits or the deferred benefits. Hence, such deferred schemes of profit sharing, like pension systems, may be used as very effective weapons of employers in an industrial crisis.

Such plans of deferred profit sharing have been fairly common among the thrifty French workers, but they have been relatively rare in Anglo-Saxon countries, unless employee ownership of stock, which is somewhat similar, is so classified.

20. Issuance of Stock as a Means of Profit Sharing.—The giving to employees of shares of stock instead of cash bonuses may be used as a means of profit sharing. This deferred rather than immediate participation in the profits of the industry is regarded by some employers as encouraging thrift on the part of the worker and as developing on his part an increased and continuous interest in the welfare of the business. Moreover, it does not necessitate the taking of funds out of the capital investment, for the profits of the worker, like those of the recipient of a stock dividend, will remain in the business.

Although a cash bonus is generally more popular with employees than the giving of shares of stock, employers are inclined to favor the latter method of profit sharing, for it increases the hold of management on the employees. In order to reduce labor turnover and industrial disturbances, it is sometimes further provided that the withdrawal of an employee from his occupation may result in the forfeiture of at least a portion of his accumulated profits.

It has also been alleged that profit sharing in the form of an issuance of stock to employees may lead to overcapitalization or stock watering. The process is so easy that it will be difficult to prevent the overcapitalization of the good will of the employees before it is actually created or in excess of the business value which it represents. It will be remembered that monopoly profits were often capitalized before the consolidation or merger actually took place, and that the total par value of the securities

of the new concern were frequently several times that of the value of the combined physical assets.

It is also very difficult to prevent the sale or transfer of shares of stock given to employees as a means of profit sharing. Hence, certain English and American firms have issued to their workers a special type of non-marketable stock certificate. Such securities may not be sold without the knowledge and consent of the management. Otherwise, the rapid sale of securities issued to employees as a means of profit sharing might lead to the conversion of a carefully devised system of deferred profit sharing into an unregulated form of immediate profit sharing.

In some cases shares of stock are given to employees, not because of the existence of any previously agreed on scheme of profit sharing but merely as a voluntary and gratuitous recognition by the employer of a certain number of years of faithful service on the part of his employees. Such has been the custom for a number of years of the Stetson Hat Company of Philadelphia.

21. Purchase of Stock by Employees.—At present, a popular plan of profit sharing is to permit the worker to buy shares of stock in the company on especially favorable terms instead of giving them to him. Such stock may be paid for on the installment plan out of the weekly wages of the employee. It was commonly alleged, however, that few employees avail themselves of the privilege of stock ownership in the company if it requires purchase, even on its favorable terms. But such a contention, if true, may testify to the financial inability of the workers to make such purchases rather than to their reluctance to save their wages and so to invest them. As will be shown in the next section, however, recent studies have shown that employees can and will invest their wages in the stock of the company which employs them.

The United States Steel Corporation pays a bonus to its employees in proportion to the number of shares of stock which they have owned for a certain length of time. In this way the workers are encouraged to hold their stock. In addition to its extensive welfare program, employee ownership of stock was introduced by the company at the very time that it was endeavoring to suppress labor organizations within the steel industry. The workers contended that they preferred higher wages to stock ownership and shorter hours to welfare work.

The Philadelphia Rapid Transit Company has introduced profit sharing as well as employee representation. The plan provides for a wage differential and for the ownership of stock in the company by the employees. Many other public utilities have encouraged the ownership of their stock by both employees and consumers of their products or services.

On all sides the hope is expressed that the participation by employees in the profits, as well as in the control, of industry, will reduce industrial

unrest and promote greater harmony between labor and capital. The recent increase in stock ownership by employees has been so great that Carver referred to the movement as another industrial revolution. In 1919, for illustration, Swift and Company announced that ten thousand of their employees were also stockholders of the company.

22. Extent and Character of Employee Ownership of Stock.—In order to ascertain the extent and character of this movement, an analysis was recently made of the employee stock ownership plans of certain large corporations.[1] According to Moody's 1924 books of commercial ratings of industrial, public utility, and railroad companies, there were at that time 117 corporations whose assets were listed as over one hundred million dollars. Of this number, 50 were industrials, 36 railroads, and 31 public utilities. Questionnaires were sent out to each of these corporations. Of the 96 answers received, 52 stated that some plan was in effect by which employee ownership of stock in the company was promoted.

If the replies received may be taken as typical of large corporations, about one-fourth of the employees are stockholders in the companies which employ them. The average number of shares per stock-owning employee was found to be 9.57. The shares held by employees were fairly evenly divided between common and preferred stock.

The questionnaire also endeavored to ascertain to what extent the shares of stock owned by employees carried voting privileges. Although it was evident that some plans were designed to promote employee ownership but not employee control, for the most part the shares of common stock held by the employees represented common stock with voting privileges similar to common stock held by individuals not in the employ of the corporation. Although many classes of preferred stock held by employees did not carry voting privileges, the same is often true of preferred stock in general.

One of the most interesting features of the entire analysis was the very evident newness of most of these plans to promote the ownership of stock by the employees. The date of inauguration of the plan was requested in each questionnaire and the results showed that 90 per cent of these schemes had been begun since the World War. The oldest of these plans had been in existence only 20 years.

A very extensive recent investigation of employee ownership of stock has just been made by the National Industrial Conference Board. Its conclusions may be found in "Employee Stock Purchase Plans in the United States," published in 1928. The National Industrial Conference Board found 315 companies which are either selling or which had previously sold any sort of stock to all or to selected employees. These

[1] Directed by Dr. Karl Scholz of Economics Department, University of Pennsylvania. Recorded in unpublished manuscript.

companies had a total of 2,736,448 employees, of whom there were 806,068 employee-stockholders and subscribers, or less than 30 per cent of the total number of employees. It should further be noted that this relatively small number of "wage-earning" stockholders was inflated by the inclusion not only of actual workers but also of the better paid groups, such as executives and technical experts. In twenty of the largest corporations, in which employee stock-ownership has been relatively wide-spread, the ratio of employee holdings to the total market value of the outstanding stock was only 4.26 per cent.

The National Industrial Conference Board estimated that about one million employees in the United States own or have subscribed to about one billion dollars worth of stock. Mr. Abraham Epstein, however, finds little ground for optimism in these conclusions. He interprets these factual findings of the National Industrial Conference Board in the following critical fashion.

> This means that only one out of twenty-five of these workers has purchased industrial stock. Since the market value of the total corporate stock was estimated in excess of $95,000,000,000 in 1926, and under the present inflated values must be far above $100,000,000,000, it appears that the American wage-earners, together with their fellow technicians, have still a long road ahead of them before they can capture control of American industry. At present, they have more than 99 per cent of the way to go.
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> Recently, many corporations have abandoned stock-selling plans because they have found it unprofitable to "encourage the habit of watching the ticker," to teach workers the "joy of clipping coupons" or of "rewarding those employees who are resourceful gamblers." It is plain that we cannot justify a theory of a new industrial revolution upon such a flimsy base. The proportion of workers owning stock, and the shares which they control, are negligible, even if their shares had voting power. And in the overwhelming majority of instances, this is not the case. Undoubtedly, a large portion of these shares is in the hands of the more adequately paid salaried and professional employees. It is estimated that 325,000 "employees" own more than half of the workers' stock. Probably very few real workers are in possession of more than one or two shares. Assuming that the workers' share of industrial stock brings them as high a dividend as 10 per cent, the total annual addition to their pay would be $100 a year for those owning the stock. Divided by the entire body of industrial workers, the dividend would amount to an extra $4 a year. Can such a sum give the American workingman a feeling of profound participation in the prosperity of American industry?[1]

23. Limitations of Profit Sharing.—To what extent does profit sharing accomplish its objectives? Profit sharing unlike gain sharing does not reward the individual worker in proportion to his superior or increased productivity. Hence, its effectiveness as an industrial stimulus

[1] EPSTEIN, A., "Darker Phases of American Prosperity," *The New Republic*, p. 316, Feb. 6, 1929.

is questionable. The relationship between increased exertion and increased profits on the part of the individual worker is not direct. It assumes a social consciousness and an industrial *esprit de corps* which is often lacking. On the other hand, if it succeeds in developing these valuable qualities, profit sharing is desirable. If it succeeds in fostering sympathy and mutual regard for the importance of labor, business enterprise, and invested capital, it is of economic service.

Experience has shown that profit sharing may result in contention as well as in cooperation. Profits are often reduced by changes in demand and other outside influences. Although production may have been carried on more efficiently than ever before, losses rather than profits sometimes stare the enterpriser in the face. Are the workers ready to share these risks of industry? The elimination of the enterpriser will not eliminate his functions as the shock absorber of modern economic society.

Organized labor has consistently opposed profit sharing as well as employee representation. It is charged that the full market rate of wages is generally not paid where cash bonuses are distributed. Such is apt to be the case unless profit sharing acts as a far greater stimulus to increased production and to decreased waste than most employers seem to think. Labor prefers a fixed rate of wages to participation in profits.

Moreover, labor leaders view such attempts of employers as efforts to weaken organized labor and its weapons of collective bargaining. To these alone the workers must look for increased wages. Although schemes of deferred profit sharing appeal to the employer as clever devices for reducing labor turnover, they soon undermine the independence of the worker and the mobility of labor. At best they are regarded by organized labor as the paternalism of some well-intentioned employers.

The practical test of experience also can be applied to profit sharing. In both Great Britain and the United States such schemes have shown a high rate of mortality. About one-half of the profit-sharing enterprises begun in the former country were subsequently abandoned. A similar study was made in the United States in 1916. Of the sixty plans then found to be in operation, only seven antedated 1900. One-half of the total had been started within the previous 5 years and two-thirds within the previous 10 years. Only one-third of these paid profit shares which amounted to 10 per cent of the wages and only one-twelfth shares which amounted to 20 per cent of the wages.

Such figures seem to show a fundamental weakness of profit sharing. It should be remembered, however, that the proportion of ordinary business failures is so great that it is remarkable how many individuals fly in the face of statistics and engage in business. Again, little progress would be made if it were not for ambitious individuals who are constantly

snatching success from failure. The record of all successful inventions, discoveries, and businesses is strewn with failure. Profit sharing is a rather difficult economic experiment but it has been successfully done by individuals with sufficient vision, tact, and executive ability. These striking individual successes prevent us from feeling that too much social and individual effort has been expended in this direction. There are many paths which lead to industrial progress.

It seems very likely that the recent stimulus to industrial representation will in turn stimulate a renewed interest in profit sharing devices. At the present time this movement is expressing itself chiefly in the form of ownership by the employees of shares of stock of the company. although such stock ownership permits the employee to participate in profits, it rarely carries with it participation in control. Many such shares of employees' stock do not carry voting privileges. Even where voting privileges are enjoyed by the workers there is often concentrated control by the management.

24. Summary.—Industrial democracy represents a reaction against the centralized control and autocratic operation of industry. Its two chief manifestations are employee representation and profit sharing, that is, the participation of workers in the control and in the ownership of industry. Industrial democracy represents the copartnership concept of industry.

Industrial representation is illustrated by works councils and joint industrial councils. It may be restricted to the employees of a given business organization and function through company unions, or it may be broader in its scope and related to the trade-union movement. The works councils of Europe are generally an integral part of the organized labor movement. The company unions of America are generally independent of trade unions. Organized labor is hostile to company unions and refuses to regard them as legitimate associations for effective collective bargaining.

Profit sharing generally accepts the wage system. It merely provides for some participation in profits by the workers in addition to a basic or minimum wage. Gain sharing, in contradistinction to profit sharing, seeks to make the individual's share of the profits dependent on his individual productivity rather than that of the entire group.

The simplest form of profit sharing is the sliding scale which makes profits vary with the price of the product. Other forms of profit sharing make the workers' participation in profits vary with the net profits of the business rather than with the price of the product. Profit sharing may take the form of cash bonuses or of many different types of deferred savings. One of the most important phases of the profit-sharing movement in recent times is the attempt to make the employee a stockholder in the industry.

Although there are many striking illustrations of successful profit sharing, many of these attempts have been short-lived or restricted in scope. A successful enterpriser and far-sighted employees seem essential to the success of profit sharing. Many plans of profit sharing have led to internal dissentions or have failed to provide a strong incentive to increased production. The success of profit sharing seems to depend as much on general market conditions as on the productivity of the workers.

Within the United States, employee representation and profit sharing have generally been inaugurated by employers rather than by the workers or by governmental legislation. They have frequently been accompanied by intensive personnel work within the plant and by extensive welfare programs outside the plant. Employee representation and profit sharing usually have been twin elements in the comprehensive plans of various employers for the economic betterment of their own workers.

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Questions for Discussion

1. What do you understand by industrial democracy in its broad sense?
2. Distinguish between employee representation and craft representation.
3. Distinguish between industrial representation and employee representation.
4. Show some differences between the development of industrial democracy in Europe and in the United States.
5. Illustrate the recent growth of employee representation in the United States.
6. Is this movement practical and desirable? Why or why not?
7. What are the chief types of employee representation? Illustrate.
8. How is profit sharing related to industrial representation?
9. Show the relationship of each of these movements to personnel administration and to welfare work.
10. Does profit sharing propose the elimination of the wage system? of the enterpriser? Give reasons for your answer. Give qualifications.
11. Outline the different types of profit sharing.

12. Which do you regard as the fairest? the most practical? the most promising? Give reasons in each case.
13. What reasons can you give for the frequent failure of profit sharing?
14. What general conditions do you regard as essential to its success?

Topics for Investigation

1. Works committees and industrial councils in England.
2. Compulsory works councils in Germany.
3. Colorado plan of industrial representation and its success.
4. Organization plans of a company union with which you are familiar.
5. Organized labor and employee representation.
6. The history of the sliding scale of profit sharing.
7. Profit sharing in a small establishment.
8. Profit sharing in a large concern, *e.g.*, a public utility.

PART SIX

PROGRAMS OF RECONSTRUCTION

Chapter XIX. The Cooperative Movement, *The Elimination of the Individual Enterpriser.*
Chapter XX. Socialism and Syndicalism, *The Elimination of Capitalism.*
Chapter XXI. Industrial and Social Progress, *The Problem of Adjustment.*

CHAPTER XIX

THE COOPERATIVE MOVEMENT

THE ELIMINATION OF THE INDIVIDUAL ENTERPRISER

1. Aims of the Cooperative Movement.—Works councils and profit sharing merely propose the copartnership concept of labor and the employer. The cooperative movement, however, would dispense altogether with the business enterpriser. A given business would be run not by a single individual but cooperatively, that is, by a representative committee of the workers or of the consumers. In the absence of the enterpriser, private profits would be eliminated or rather divided among the workers or the consumers according to some previously arranged plan. Indeed, it may be said that the prime object of any truly cooperative movement is mutual benefit rather than profits. It represents collective rather than individual enterprise in the production and distribution of economic goods.

The immediate aim of the cooperative movement is the reduction of the economic wastes of our competitive system and the elimination of middlemen and individual employers. The ultimate aim of some thinkers is the evolution of a cooperative commonwealth. Although such an aim may be revolutionary, the methods of attainment are peaceful. Moreover, the process is viewed as a gradual one.

State socialism is political and is superimposed from above. The cooperative movement is economic rather than political; moreover, it is a group rather than a national experiment. Cooperative associations grow up within a given economic society without destroying it. They can demonstrate their merit or lack of merit in competition with the present competitive and individualistic system. Indeed, a cooperative association has been regarded as socialism within the test tube. The status of private property rights, however, is different under the two systems. The cooperative movement recognizes not only the importance of capital but also the existence of private property rights in capital and other forms of wealth.

2. Types of Cooperation.—The cooperative movement has expressed itself in three chief types: (1) consumers' cooperation, (2) producers' cooperation, and (3) cooperative credit institutions. Consumers' cooperation is represented by cooperative stores in which the purchasers share the profits of their cooperative venture. Producers' cooperation

is represented by factories which are managed by committees of the workers who divide the profits among themselves. Cooperative credit is represented by building and loan associations, by mutual savings banks, and by other cooperative banking ventures.

Distributors' cooperation is represented by organizations of farmers who seek to market their products collectively and to eliminate the private grain elevator and the commission merchant. Cooperation in distribution merely seeks to eliminate middlemen and to reduce some present wastes in distribution. Redistribution, in this sense, means better marketing and not changes in the distribution of income nor a reapportionment of the product of industry among the various factors in production. Cooperative distribution rarely means a division of the profits among either the consumers or the workers. It means, usually, an organization of enterprisers which provides a central and coordinated market which reduces risks and waste.

3. Rochdale Cooperative Plan.—Cooperative stores represent one of the most important phases of this general movement. They may be said to date from the famous Rochdale cooperative store which was begun in 1844. An old building on a small street was rented and the total sales of the first week amounted to slightly more than £2. The plan was devised by neither theoretical economists nor practical captains of industry, but it was the invention of a score of humble English flannel weavers.

The capital for the original Rochdale cooperative store was subscribed by the prospective purchasers who lived in the vicinity. Shares of stock had a par value of £1 each. Hence, they could be purchased by individuals in very moderate circumstances. A fixed rate of interest of 5 per cent was guaranteed before any profits should be distributed.

The general policy was followed of charging current market prices for the articles sold at the cooperative store. Profits were not placed in the market basket. A purchase check, which stated the amount of his purchases, was given to every buyer. At the end of each quarter the total receipts were balanced against the total expenses and the net profits of the store were computed. Profits were then divided, not among the stockholders in proportion to the shares of stock held, but among the purchasers according to the amount of purchases made during the past quarter. Profits were made because of the economy of collective buying at wholesale rates.

A unique feature of the Rochdale plan was its democratic plan of management. Every stockholder possessed only one vote, and not one vote for every share of stock which he held. Wide participation in the benefits of the cooperative store resulted from the provision that a prospective member and purchaser need contribute only 1 shilling, or one-twentieth of the par value of a share of stock, and then contribute

the remainder in part payments out of his share of the divided profits. Non-members might buy at cooperative stores, but a share in the profits was contingent on membership, which could be obtained for almost nothing. Full publicity was given to the financial accounts of these cooperative stores and their profit statements could be read by all. Business was done on a strictly cash basis.

4. Development of Consumers' Cooperation in Great Britain.—The Rochdale plan was a success from its very beginning. Other cooperative stores developed steadily in Great Britain. Within a few decades the total annual cooperative trade represented millions of pounds.

In 1864 there was formed the English Cooperative Wholesale Society, for the purpose of collective buying for the cooperative retail stores. Its object was the absorption of the profits of individual jobbers and wholesalers. The profits of the cooperative wholesale society were likewise distributed among the retail stores in proportion to their purchases. A Scottish and an Irish Cooperative Wholesale Society were formed soon afterward, as well as a Cooperative Congress and a Cooperative Union for the federation of all cooperative societies throughout the United Kingdom of Great Britain and Ireland. The total gross sales of these cooperative wholesale societies in 1919 was considerable in excess of one hundred million pounds. At that date, the English Wholesale Society alone had forty thousand employees in its service.

The step from cooperative wholesale societies to cooperative manufacturing and farming was as natural as that from retail stores to wholesale societies. Cooperative wholesale societies began to manufacture and to grow certain products rather than to buy them from other individual producers.

The English Cooperative Wholesale Society is now the largest flour miller in Great Britain as well as the largest biscuit manufacturer. It is also engaged in the manufacture of clothing, furniture, groceries, and numerous other articles. It maintains iron works and coal mines in England and tea plantations in Ceylon. Its own merchant fleet carries its products from one part of the globe to another.

From the very humble beginnings of the Rochdale flannel weavers, consumers' cooperation has developed to enormous proportions within Great Britain. In 1920, cooperative stores in that nation possessed a total membership of over four milllion individuals and represented an aggregate capital of about one hundred million pounds. There were over thirteen hundred retail stores from which it has been estimated that one-third of the population of Great Britain made their purchases. The total number of employees of all the cooperative societies of Great Britain was about two hundred thousand.

5. Its Advantages and Limitations.—Cooperative societies conduct their productive enterprises just like any other business corporation.

They strive to maintain good working conditions and to pay their employees fair wages, but the workers do not possess industrial representation nor a voice in management. Moreover, they do not receive shares in the profits, although they benefit like all other consumers in lower costs of living. The movement is merely an extension of consumers' cooperation and does not represent producers' cooperation.

The obvious advantages of consumers' cooperation are the reduction in the costs of living and the promotion of thrift. The standardization of economic wants and the elimination of waste are also important. Moreover, there are social as well as economic advantages, which are represented by the promotion of cooperation rather than competition, and the ideal of mutual benefit rather than that of individual gain. Great Britain has been especially fortunate in the type of men who have identified themselves with the leadership of the cooperative movement in that country.

The cooperative movement spread from England to Scotland, Wales, and Ireland, and from Great Britain to Europe and America. Although it has attained some success in Germany, Denmark, and other countries of Europe, consumers' cooperation has nowhere else developed to the same proportions as in Great Britain.

6. Consumers' Cooperation in the United States.—Within the United States consumers' cooperation has developed very slowly. A number of reasons suggest themselves as possible explanations. As American wages have been higher than those of Great Britain and Europe, economic pressure toward thrift and economy has been less severe here. Moreover, it is alleged that the American is an individualist and less experienced in cooperative movements. Again, retail stores are very attractive in this country and their variety delights the American consumer who may be less willing than the English consumer to standardize his consumption. The relative mobility of labor and the heterogeneous character of our industrial population may be another causal element. Whatever the causes may be, the fact remains that the cooperative stores have often met with failure in America. Although a number of profit-making private enterprises have posed as cooperative stores, they have been cooperative in name only and have used this slogan for the purpose of increasing sales.

During the World War the pressure of prices upon income was so severe that the cooperative movement in the United States received a new stimulus. Unfortunately, some of these new and small ventures were unable to weather the period of falling prices and liquidation which followed. However, there is still in existence the Cooperative League of America and a number of fairly successful cooperative stores. In 1919 there were three thousand such societies doing an annual business of two hundred million dollars.

7. Producers' Cooperation.—Producers' cooperation is sometimes associated with consumers' cooperation, but the two schemes are vitally different. Although the former is older than the latter, it has not met with the same success. Consumers' cooperation seeks to reduce prices and to lower the cost of living, whereas, producers' cooperation seeks to raise wages and improve the working conditions of labor. Producers' cooperation is represented by the self-governing workshop and the appropriation of profits by producers rather than by consumers. It is an experiment in industrial democracy.

The two types of cooperation are similar in that both represent collective action rather than individual initiative, and both would eliminate the enterpriser. Moreover, both plans are based on individual representation rather than on the number of shares of stock. One man one vote is the general principle of all cooperative enterprises.

Producers' cooperation like profit sharing developed first in France. The Revolution of 1848 gave a stimulus to self-governing workshops, but the movement was a general failure. In Great Britain, producers' cooperation was first expressed in the communistic schemes of Robert Owen. Later experiments there, in producers' cooperation also failed. The general history of producers' cooperation stands out in marked contrast to the signal success of consumers' cooperation.

In 1919 there were only 95 producers' cooperative societies affiliated with the Cooperative Union of Great Britain, as compared with 1,357 consumers' cooperative societies. Whereas the membership of the former numbered only 40,000, the membership in the latter was over 4,000,000. The gross sales of the former were £7,000,000, as compared with £314,-000,000 of the latter. Moreover, a large portion of these small sales of producers' cooperative societies represented sales to other cooperative societies.

Within the United States there have been a number of attempts at producers' cooperation, such as those as the Knight of Labor. Although the record has been one of general failure, there are such notable exceptions as the Cooperative Barrel Manufacturing Company of Minneapolis.

There have been several recent attempts at producers' cooperation inaugurated by trade unions. The latter have extended their activities into the field of banking and various other forms of business. These recent and varied cooperative activities of strongly organized trade unions indicate that producers' cooperation may become a very important phase of the future labor movement. That such a development is strewn with difficulties is illustrated by the experience of the Brotherhood of Locomotive Engineers. The latter have engaged not only in banking but also in the operation of a coal mine. In order to keep down expenses and make the business a financial success, the union was forced to employ non-union labor in this West Virginia mine. Such a situation represents

a departure not merely from producers' cooperation but also from the very principles of trade unionism.

8. Difficulties of Producers' Cooperation.—A number of difficulties present themselves, which may be partial explanations of the past failures of producers' cooperation. Chief among these is the difficulty of securing capital. Workmen's savings are a very meager source from which to draw, and the capitalist is not apt to lend funds to an enterprise of which he doubts both the success and desirability. A second difficulty is the lack of managerial ability. Workers are not always good business men, for the successful enterpriser is a combination of natural ability, acquired education, and experience along commercial lines. Workers have often failed to realize the importance of business organization to successful production and have failed to offer sufficient reward to attract capable managers. Numerous cooperative schemes, which were headed by honest but inexperienced individuals, have failed because of an inability to meet the changing demands of the market.

On the other hand, where producers' cooperation has been a success, there is sometimes a tendency to capitalize this success and to prevent other workers from entering on similar terms. The result is a corporation with hired employees, some of whom own shares of stock. When the principle of one man one vote gives way to the principle of one share of stock one vote, the organization has ceased to be cooperative in the strict sense of the word.

Producers' cooperation has succeeded chiefly in small establishments which require skilled craftsmen rather than abundant capital and unskilled labor. The existence of a relatively stable demand for the product is another element favorable to the success of producers' cooperation.

9. Agricultural Cooperation.—Farmers have often cooperated with each other in the building of barns and the harvesting of crops, but the development of capitalistic agriculture has increased the necessity for further cooperation. Machinery is often too expensive for one farmer to purchase by himself. Moreover, a single individual will not want a machine continuously. The result is a very simple form of cooperation. One farmer will buy a tractor and another a threshing machine. Each will lend his capital to the other.

In many cases this primitive cooperation is more highly developed. There may be a mutual association of farmers which buys machinery and then rents it to its members. This is quite common in Denmark. Again, the local creamery may be a cooperative venture of the local dairy farmers rather than an individual profit-making enterprise. In the United States at the present time there are several thousand cooperative creameries.

Agricultural cooperation, however, has been more highly developed in the marketing of farm products than in their growing. Cooperative sales agencies in the United States market agricultural products each year which are worth hundreds of millions of dollars. The California Fruit Growers' Exchange illustrates this in the citrus-fruit industry.

The grange movement of the northwest has reflected itself in cooperative grain elevators and livestock shipping associations. Moreover, agricultural cooperation reflects itself in collective buying as well as in collective selling. Fertilizer, feed, and other farm necessities are purchased from cooperative associations which buy these products at wholesale or manufacturers' prices.

One of the needs of the American farmer has been cheap credit and loans secured by agricultural collateral. In 1916 there was passed the Federal Farm Loan or Rural Credits Act. This law permits the organization of joint stock land banks and farm loan associations. The latter are cooperative societies somewhat similar to the city building and loan associations. Both financial institutions have operated successfully for the extension of credit to the farmer.

10. Cooperative Credit and Banking.—Cooperative credit societies first developed in Germany about the middle of the last century. These took the form of small unincorporated associations of farmers or tradesmen. The absence of limited liability meant that greater care was exercised in the granting of loans. The loanable funds represented the savings of members which were placed on deposit. These might be borrowed by other members for legitimate and carefully supervised business purposes. Rates of interest to members were cheaper than those charged by commercial banks and most of the officers served without compensation.

Among the earliest cooperative credit societies in Great Britain and America were building and loan associations. The purpose was not industrial, as in the case of the German credit associations, but rather the owning of one's own home. The first building and loan association in America was founded in Frankford (now a part of Philadelphia) in 1831. Since that time such societies have grown steadily and have been performing a very useful service.

Building and loan associations are cooperative societies by virtue of the fact that the borrower becomes automatically a stockholder. Profits are divided among all stockholders in proportion to the number of shares and most of the officers serve without compensation. Voting is generally done by individuals and not by shares of stock. Under the famous Philadelphia plan, the borrower in a building and loan association pays double dues, one-half of which represents the interest and the other half a part payment on the principal. These payments are usually made each month and continue for 10, 11, or 12 years. The borrower,

however, can pay the balance of his loan at any time. In this respect a building and loan mortgage is peculiar.

In both Europe and America there have been cooperative banks. Savings banks were developed as institutions to develop thrift and enable workers safely to invest their small earnings. The first savings bank in America was instituted in New York in 1816 after an English model. Early savings banks were cooperative in the sense that they were mutual. There was no capital stock and the deposits constituted the entire source of loanable funds. Profits were proportionately divided among depositors. Later mutual savings banks had capital stock, but paid the stockholders a fixed rate of interest and divided all profits in excess of this amount and the general operating expenses among the depositors. As under the Rochdale plan, the customers shared the profits proportionately.

Most life insurance companies and many property insurance companies have been mutualized, that is, profits are divided among the policy holders, who become stockholders automatically by the purchase of an insurance policy. Insurance is a saving device and in this respect similar to savings banks and building and loan associations. If it is mutualized or profit sharing, it is a form of cooperation. Most beneficial associations are cooperative societies, but they have often ignored the principles of scientific insurance and failed to secure adequate reserves.

In Great Britain, consumers' cooperation developed apart from cooperative credit. In 1872, however, it was finally decided by the English Cooperative Wholesale Society that they should embark on this new venture. Its early history was far from successful, but the experiment was continued. In 1920 the bank was still in existence with almost six thousand accounts, although most of these represented the funds of trade unions, friendly or fraternal societies, and other cooperative associations.

11. Labor Banks.—There have been cooperative banks within the United States, some of which received their chief impetus from trade unionism. In 1920, for illustration, there was opened the Brotherhood of Locomotive Engineers Cooperative Bank in Cleveland, Ohio. In Philadelphia a similar banking venture was made by the Brotherhood of Locomotive Engineers. The Amalgamated Clothing Workers also entered the banking business. Stock was issued in shares of small par value, and the trade unionists constituted the majority of the stockholders, and even of the depositors.

Cooperative banking received a set-back in the spring of 1925, when the Producers' and Consumers' Bank of Philadelphia closed its doors. Although the officers of this bank were men of integrity, they had displayed little ability as bankers. The assets and liabilities of this cooperative labor bank were finally taken over by the Mitten Bank, a financial

organization closely related to the Mitten Management which operates the Philadelphia Rapid Transit Company.

The present status of labor banks has been described as follows.

> Their growth since the establishment of the first bank, in 1920, led the prophetic economists to conclude that in a few more years the workers, in control of their rising savings, would be able gradually to buy out most of our industries and corporations, and thus establish the labor commonwealth through the peaceful penetration of Wall Street. Labor banks have now had a sufficient period of existence to justify a calmer appraisal. In October, 1928, the total resources of the labor banks amounted to a little over $113,000,000. The mere fact that only a few weeks ago the third private bank in New York City entered the billion-dollar class, while many more come close to this, will enable us to realize the extent to which the workers have succeeded in their invasion of Wall Street. It is also significant that during 1928 the number of labor banks has declined from thirty-three to twenty-seven, while their total resources have diminished by over $11,000,000.[1]

12. Workers' Savings.—Equally serious has been the slow growth of workers savings, as measured by deposits in savings banks and by their ownership of corporate securities. The data collected by the American Bankers Association indicate that the total savings deposits in all banks in the United States increased from $8,404,373,000 in 1912 to $26,090,902,000 in 1927 and that in the same period the number of savings depositors increased from 12,605,260 to 48,354,784. In other words, during the last fifteen years savings deposits more than tripled and the number of savings depositors almost quadrupled. Do not these general figures permit considerable optimism as to the growth of workers' savings and do they not warrant the belief that labor has shared in our recent prosperity to such an extent that the workers now own a considerable portion of the national capital?

It has been contended, however, that these figures are very misleading and that no such optimistic conclusions can be drawn from them. The reported figures of savings depositors in 1912 were probably below their true amounts, for before 1914 only a few states reported the depositors in savings accounts in trust companies or in state banks other than the stock savings banks. Hence, the growth of savings depositors was not so rapid as it would appear from a superficial examination of these figures. Again, it is further contended that the large number of savings depositors in 1927 is much inflated by the inclusion of certain commercial accounts, on the one hand, and by the inclusion of the dollar up savings accounts of millions of school children, on the other hand. In the last place, all such figures must be carefully refined in terms of the changing price level.

[1] Epstein, A., "Darker Phases of American Prosperity," *The New Republic*, p. 315, Feb. 6, 1929.

According to the findings of Mr. Saltman[1] savings deposits in all banks of the United States have grown from $6,284,483,000 in 1911 to $17,990,483,000 in 1924 or 186 per cent. When it is remembered that the purchasing power of the dollar in 1924 was only a little over half that of the 1911 dollar, it will be seen that workers' savings, as measured by deposits in savings banks, have not increased at a phenomenally rapid rate. It is also interesting to note that the average deposit account crept up from $364 in 1911 to $463 in 1924 for the country as a whole and from $422 to $510 in New England, or 27 per cent and 20 per cent respectively. When referred in terms of the changing price level it will be seen that the average savings deposit decreased rather than increased during this period.

Mr. Saltman's conclusions as to workers' savings as measured by small savings accounts are as follows.

> The facts appear to indicate that in late years there has been a slight decrease in the proportion of small savers—certainly not an increase . . . From 1900 to 1914 the average deposit account advanced steadily ahead of real earnings . . . But since 1914 a distinctly new trend has set in . . . Beyond a doubt, there has been in the last dozen years a decided drop in the place which savings deposits occupy in the wage earners' budget . . . The fact appears to be that the wage-earners are today putting a smaller proportion of their income into savings deposits than they did a dozen years ago.[2]

It has been contended that the American worker has become so prosperous that he has invested his savings in larger amounts, that is, by the purchase of corporation stocks and bonds rather than by the small scale method of savings banks. It is contended that the World War, which was attended by Liberty Bond campaigns and the advent of baby bonds, taught the workers the pride and joy of the ownership of securities. The step from government bonds to corporation bonds and stocks was easy and natural. Indeed, it paved the way for the present campaign of employee ownership of stock, discussed in the last chapter. This general movement was accelerated or intensified by the recent speculative fever.

Such a line of reasoning is very plausible, but let us see just what are the facts concerning the ownership of corporation securities. Although it is often asserted that the number of stockholders in this country increased from less than five millions in 1900 to about fifteen millions in 1927, such estimates frequently ignore the fact that duplication occurs because many of these stockholders are the same individuals, owning stock in many different companies. Joseph S. McCoy, Actuary of the United States Treasury, in a recent analysis estimated that only about three million individuals in the United States own corporation securities.

[1] Saltman, A. J., "The Wage Earner and His Savings Deposits."

[2] *Ibid.*

Only one in every thirty persons in the United States now belongs to the legion of capitalists! Investigations have shown that some individuals own as many as 500 different stocks.[1]

13. Summary.—The cooperative movement proposes the complete elimination of the enterpriser and substitutes collective action for individual initiative. Unlike state socialism, it is not a national but rather a group movement. Moreover, it is economic rather than political, and evolutionary rather than revolutionary.

The cooperative movement presents three phases; consumers' cooperation, producers' cooperation, and cooperative banking and credit. The cooperative movement among farmers is especially significant in all three of these fields. Distributors' cooperation is represented by improved marketing organizations for the elimination of waste. It may or may not be strictly cooperative in character.

The Rochdale Cooperative Store was the pioneer experiment in consumers' cooperation. It was eminently successful and spread from retail associations to wholesale associations and from England to other countries. Although it has developed to enormous proportions in Great Britain, consumers' cooperation has not made much headway in the United States.

Producers' cooperation, as represented by groups of workers engaged in manufacturing enterprises, has not been very successful. The enterpriser is eliminated, for the workers both direct and own the enterprise. The lack of capital, the scarcity of managerial ability, and the constant tendency to exclude new workers limits the success and extension of producers' cooperation.

There are numerous types of cooperative credit associations. Prominent among them are the loan associations of Germany and the building and loan associations of the United States. Cooperative banking institutions are represented by mutual savings banks. Insurance has felt the impetus of the cooperative movement, for many insurance companies have mutualized. Organized labor, feeling the need of improved credit facilities, has become interested in a number of cooperative banking ventures. Land banks are cooperative organizations for the extension of credit facilities to the farmer. In spite of these various cooperative credit associations, however, it is doubtful if the per capita real savings of the workers have increased.

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Questions for Discussion

1. Compare the cooperative movement with profit sharing.
2. How does the cooperative movement differ from socialism.
3. Outline the different types of cooperation.
4. Explain the plan of the Rochdale Cooperative Store.
5. Why do you think consumers' cooperation has met with so little success in the United States as compared with Great Britain?
6. What do you understand by producers' cooperation?
7. Compare it with consumers' cooperation.
8. Has producers' cooperation been successful? Why or why not?
9. Explain and illustrate different types of agricultural cooperation.
10. Explain and illustrate different types of cooperative banking.

11. What do you understand by distributors' cooperation? Is it a part of the cooperative movement? Why or why not?

Topics for Investigation

1. The Rochdale pioneers in the cooperative movement.
2. Producers' cooperation in France.
3. Cooperation in the United States for the marketing of farm products.
4. The tendency toward mutualization in the insurance business.
5. Labor organizations and cooperative banking.
6. Building and loan associations as cooperative societies.

CHAPTER XX

SOCIALISM AND SYNDICALISM

THE ELIMINATION OF CAPITALISM

1. Nature of Socialism.—There are so many different types of socialism that it is difficult to define the movement with any exactness. Only a broad definition is possible. The common essential in all true schools of socialism is the substitution of collective ownership and control of industry for individual initiative and the present competitive system. The profits motive is to be eliminated or reduced in favor of the social service motive. A democratic organization of the workers is to succeed industrial absolutism. Moreover, socialism involves some fundamental changes in the institution of private property. Although permitting property rights in a certain amount of consumption goods, socialism attacks private property rights in land and capital. The cooperative movement would eliminate the individual enterpriser and the single-tax movement the landlord, but socialism would eliminate the capitalist also. It differs from communism in that the latter refuses to recognize any property rights whatsoever. Socialism seeks to eliminate property incomes from such sources as inheritance, rent, interest, and profits. Wages would be the only form of income and all incomes would be earned incomes. Socialists differ among themselves on the question of equality or inequality of wages. They generally regard the salaries of brain workers, as well as the wages of manual laborers, as earned incomes.

There are many programs of social reform which are socialistic but which are not socialism, because they do not involve the collective ownership and operation of industry. The defeat of such measures is sometimes accomplished by the use of invective rather than reason. The specter of socialism is paraded through the legislative halls with deadly effect. Moreover, socialism is often confused with other relatively radical movements which are not socialism. We have seen that socialism is not communism. Again, socialism is entirely different from anarchism, although the two movements are sometimes regarded as identical. Anarchism seeks the reduction of governmental functions and the elimination of the political state. This may be done by evolutionary as well as by revolutionary methods. State socialism, on the other hand, seeks the increase of governmental functions, for it proposes that the state own and operate all industries. Socialism does not propose the elimination of religion, the church, or the institution of the family. It is true that cer-

tain early socialists were atheists and proposed to substitute a kind of promiscuity for the monogamous family. These radical religious and social proposals, however, have nothing to do with the economic creed of socialism. There are Christian socialists and agnostic capitalists. It might be argued with equal falsity that all socialists are Christians and that all capitalists are agnostics.

2. Socialists' Indictment of Capitalism.—Socialists usually begin their arguments with a criticism of the present economic system, rather than with a statement of the proposals of socialism. To a mind in which a burning consciousness of the evils of modern capitalism has been aroused, the promises of socialism stand out in bright relief. Remedial measures and other alternatives are slighted, and socialism in general or a certain type of socialism in particular is stressed as the one way of economic salvation.

The first indictment made by the socialists is that the present competitive system is wasteful. There is an unnecessary duplication of material equipment and human effort. Thus, the railroads developed as competitive enterprises under individual initiative. The result is the present struggle to develop integrated systems and to bring order out of chaos. Would it not have been better for the state or some other central agency to have directed the railroad development of the country? The tendency toward monopoly can easily be seen in other industries. Our economic development has been from small-scale production to large-scale production with all the advantages of the latter. The present tendency seems to be toward large-scale management and monopoly. As private monopoly is unthinkable, governmental ownership is necessary.

The advantages of monopoly result from the greater utilization of the advantages of large-scale production and management with the consequent elimination of the wastes of competition. They can be seen in the meat-packing and steel industries, as well as in public utilities. There are advantages in administration and distribution, as well as in production. Cross freights can be eliminated and the goods shipped from the nearest point to the consumer. Witness the economies of a large mail-order house such as Sears, Roebuck, and Company. On the other hand, note the lost effort which results when numerous milk wagons and bread boys cover the same route to the discomfort of the sleeping millions of our large cities. Compare this situation with the distribution of the mail by a centralized governmental authority.

In a somewhat similar fashion, selling expenses can be reduced and the enormous wastes of competitive advertising eliminated by large-scale management. It is thus contended that under socialism ugly billboards would no longer shriek the merits of "X" kidney pills as compared with "Y" kidney pills, or "A" shaving cream as compared with "B" shaving cream. In the last place, it is generally agreed that a monopoly price

is more stable than a competitive price. That the present competitive system does not work smoothly is attested by the business cycle with its constantly recurring periods of depression. Socialists claim that under the control of numerous individual enterprisers rather than under some central governmental agency there will always be misdirected production and economic crises.

Another indictment of the present economic system is the existing inequality of wealth and income. We have seen how unequally the national income is distributed among the people of the United States. At the present time the nation possesses several thousand millionaires and several million paupers. Conspicuous consumption exists on the one hand and dire poverty on the other. Socialists point out that if all incomes were earned and all property incomes were eliminated, such economic inequality would be reduced.

The socialist also criticizes the profits motive which directs production under our present system. Economic demand rather than social welfare is the indicator which production now follows. Inequalities in income make possible the production of luxuries for some before necessities for all. Moreover, the quality and character of economic goods also suffer. It is profitable to produce shoddy cloth, to adulterate food, and to make things which are injurious to their users but which have a ready market. "Illth" rather than wealth is the result. The method of production is also important. Goods are made in ugly factories which belch out clouds of smoke into the air we breathe, and which pour streams of refuse into the water which is used for drinking water by towns farther down the river. Public health and aesthetic values are threatened by this spirit of gain. The conservation of natural resources is impossible in a competitive society.

Although human nature is social as well as individualistic, the sordid profits motive has developed our acquisitive traits and inhibited our cooperative efforts. The esteem of one's fellows, or social recognition, is desired by every member of society. The valor of the soldier and the research of the scientist are rewarded by the laurel wreath rather than by pecuniary compensation. To certain groups at all times and to all groups at certain critical times, the social service spirit transcends the profits motive. Could such a spirit not be extended to normal industrial life? The profits motive has dominated our economic order and expressed success in terms of the dollar mark. Social recognition rather than the accumulation of fortunes might have proved an equally adequate reward for those great captains of industry who have led the army of economic progress.

In the last place, socialism indicts the present system as productive of human as well as of economic wastes. Not only does the profits motive lower the social plane of competition and degrade human nature,

but it is also responsible for certain economic maladjustments, many of which have been discussed in earlier chapters. Child labor, unemployment, dangerous trades, and occupational diseases are laid by socialists at the door of modern capitalism. In spite of the fact that labor is the source of all wealth the wages of many workers are inadequate to maintain decent standards of living. Because the instruments of production are owned by a propertied class, labor is exploited and does not receive its full product.

3. Proposals of Socialism.—The very definition of socialism gives its first and fundamental proposal, that of collective ownership and operation of the instruments of production. Some socialists would apply collective ownership to all the instruments of production and would permit individual ownership only of the worker's own home, clothing, and personal effects. More conservative socialists, however, would apply collective ownership only to the basic industries. Between these two extremes there are many compromise positions. Most socialists would permit the farmer to claim as much land as one man could cultivate. He could not rent any excess amount to some other individual, nor could he hire a laborer to till his land for him. In these cases the wage system or the landlord would be reintroduced. Although the individual tradesman might be permitted in certain businesses which are by nature small scale, all large stores and manufacturing plants would be collective enterprises.

The change from individual to collective ownership of industry involves a process of confiscation to which many people object. The socialist replies that the landlord and capitalist have already confiscated for themselves the free gifts of nature and the products of labor of all workers. Socialism is therefore not confiscation, but recovery. Moreover, the old argument of confiscation opposes all social reform. The abolition of human slavery involved the confiscation of the property of the poor widow who owned but a single slave. In order to avoid the charge of confiscation, a socialistic state might purchase private industries from their present owners by exchanging corporate stocks and bonds for the governmental bonds of the new socialistic state. In this manner collective ownership of industry might be established without confiscation. However, inequality of wealth would persist. Unless these government bonds were to become worthless, interest must be paid upon them. This would constitute a form of property income repugnant to all true socialists.

Socialism proposes the elimination of all forms of income except wages. Although earned income is the only type of income which socialists recognize, this includes the rewards of brain as well as of brawn. Moreover, it does not follow that all incomes should be the same. Although some socialists insist on a flat equality of income,

others propose an income dependent on the size of the family, that is, in proportion to needs rather than economic productivity. Most socialists, however, recognize the necessity for a moderate wage differential in proportion to economic productivity, or at least in proportion to individual effort. If all workers received the same wage irrespective of their economic productivity, there would be a dangerous tendency toward idleness or "soldiering on the job." To apportion income according to the size of the family would be to accentuate the Malthusian tendency and to reward biologic productivity rather than economic productivity. The exact method of determining wages under socialism is a matter of considerable controversy. There would probably be a minimum wage in order to prevent any individuals from living below a decent standard of living. Above this line wages would vary according to the subjective sacrifices or the objective productivity of the workers. There would be no enormous salaries or property incomes of any sort.

Commodity money might be used under socialism, although there would be no private banks or bankers. Socialism does not necessarily involve an abandonment of the gold standard or of ordinary credit currency. On the other hand, wages might be paid in labor checks which, in turn, could be used for the purchase of goods from government stores. Under the present competitive system the prices of goods and the wages of labor are determined in the open market by the forces of supply and demand. Under socialism price as a controlling and organizing factor would play a less important rôle. Socialism does not necessitate the elimination of a price system, although it would considerably modify it. It might be necessary for some central agency to determine the productivity or sacrifice of a given worker in order to fix his wages. It might also be necessary to fix the price of a given commodity in terms of the amount of labor which it represents. It is difficult to conceive of any governmental agency qualified to perform such a task or of any method by which this might accurately be done.

In the fourth place, socialism proposes to substitute an industrial democracy for an industrial absolutism. Control by the workers through some form of industrial representation is regarded as essential. This factor in socialism was overlooked by many early state socialists. They proposed to substitute governmental ownership and operation for individual initiative in industry, but they failed to provide any method for the democratization of industry. State socialism with its centralized governmental bureaus failed to give the workers a voice in the control of industry. Hence, guild socialism developed its ideal of the self-governing workshop.

There are a number of other miscellaneous proposals of socialists, which, although not a part of socialism in the strict sense of the word, are generally associated with it. Thus, socialists propose certain edu-

cational reforms. Children would be prevented from leaving school at an early age and going to work. Educational opportunity would be extended in all directions. The government rather than benevolent individuals would be the builder of museums and art galleries. The state would become the patron of the arts and sciences. Community centers, parks, and playgrounds, as well as supervised theaters, would be provided for the recreation of all citizens of the socialistic state. Health and safety in industry, as well as improved housing and better living conditions, would be promoted. Municipal tenements would take the place of slums. Public hospitals would be open to all, and most physicians would be governmental officers. Social insurance is not socialism, but the latter generally includes the former. A socialistic state would provide not only workmen's compensation for industrial accidents, but also sickness insurance, unemployment insurance, and old age pensions.

4. Theories of Karl Marx.—The "Communist Manifesto," published in 1848, the year of the political revolution, is the practical handbook of socialism and contains its various proposals. It was compiled by Karl Marx and Friedrich Engels as the party platform of early socialism. "Das Kapital," a later work of Marx, contains an elaborate exposition of the economic theories of Marxian socialism. Karl Marx was a German Jew who was exiled from his native land and who accomplished most of his writing in London. "Das Kapital" has been regarded as "the Bible of Socialism." It is to socialists what Henry George's "Progress and Poverty" is to single taxers. This monumental work is fundamental to all theories of socialism, whether of Marxian or of dissenting schools. Marxian socialism is also known as "scientific socialism." Some of the leading principles of Marx must be outlined in any discussion of socialistic theory. These included the economic interpretation of history, the concentration of capitalistic control, the exploitation of the proletariat or the theory of surplus value, the overproduction theory of industrial crises, and the doctrine of class struggle.

Karl Marx's economic interpretation of history, in brief, is that the economic environment is the determining factor in civilization. In other words, our political life, our social institutions, and even our religious and moral ideas are vitally affected by our economic environment. Consequently, the Industrial Revolution was of profound significance. The invention of power machinery and the introduction of the factory system have influenced not only our economic life, but also our cultural institutions. The result is a crass materialism and an identification of wealth with welfare.

The invention of power machinery and the introduction of the factory system result inevitably in the substitution of large-scale production for small-scale production. The craftsman and the small independent

producer will gradually disappear. Indeed, the middle class or bourgeoisie will ultimately cease to exist. There is a growing concentration in the control of industry. The socialists point to the modern trust as proof of the truth of this economic doctrine of concentration. While the capitalist is increasing in power and wealth, the workers are suffering from ever increasing poverty and misery.

The exploitation of the proletariat, *i.e.*, the workers who have been dispossessed of their instruments of production, is closely connected with Karl Marx's labor theory of value. Socialists contend that the value of any commodity depends upon the quantity of socially necessary labor contained in it. The productivity of capital unaided by labor is denied, and labor is regarded as the primary or ultimate source of all wealth. Capital itself is merely stored up labor. Inasmuch as interest, rent, and other forms of property income are recognized today, the worker does not receive all the wealth which he produces. A surplus value, or the difference between the wages of the worker and the value of his product is appropriated by the capitalist. Hence the laborer is exploited.

Another principle of Marxian socialism is that of overproduction as the cause of industrial crises. Because of the existing inequality of wealth, the poorer classes in society cannot buy enough. On the other hand, the wealthy groups have an income in excess of their needs and are forced to invest a large share of it in productive enterprises. The result is a further increase in production until more consumption goods are in existence than can be disposed of at existing prices. The result is an economic depression or a halting of the processes of industry until consumption again catches up with production. The socialists point to our regularly recurring economic crises as proof of this doctrine of overproduction. They contend that crises are inevitable under modern capitalism, and that they are becoming steadily worse. As they will finally become intolerable, capitalism carries within itself the seeds of its own destruction.

A final principle of Marxian socialism is that of class struggle along economic lines. History has told us the story of the struggles between masters and slaves and between lords and serfs. The Industrial Revolution created an irremovable and everwidening gulf between capitalists and proletariat. Scientific socialism does not preach revolution, but regards it as inevitable. As the middle class disappears, the conflict of interests between the two extremes in society will become more intense. The dispossessed proletariat will finally rise in their might. By sheer power of numbers they will take possession of the instruments of production and operate them collectively. The wage slavery of modern industrialism will then be eliminated.

5. Criticism of Marxism.—This mere outline of the underlying principles of Marxian socialism is too brief to state them thoroughly and with

sufficient qualifications. One of the weakest points in scientific socialism is its labor theory of value. If we admit that labor is the ultimate source of all wealth and that capital itself is the product of labor, we are still compelled to point out that roundabout production, or labor aided by capital, is more productive than labor unaided or directly applied. The socialist himself will admit the superior productivity of capitalistic labor, but he demands the collective ownership and operation of the capital. Labor as a measure of value is even more difficult to defend than labor as the source of all value. Marx assumes homogeneous units of labor, the number of which would determine the value of a coat or a book. This abstraction is impractical as a measure of the costs of production. The labor theory of value also minimizes the factor of demand, as influenced by the divergent desires of consumers. Of what value is the product of a given number of labor units, if no one has any desire for it? Marx merely assumes that the good is socially desirable and does not provide for varying degrees of utility.

The Marxian concept of overproduction needs considerable refinement. Although there may be misdirected production or general overproduction in the sense of more goods than can be disposed of at current prices, unqualified general overproduction is impossible in the sense that there are more goods produced than can be consumed. On the other hand, the socialist is probably correct in his contention that greater equality of income would have a stabilizing effect on industry by increasing the effective demands of the workers. Although this factor is of great importance, an explanation of crises, however, must take other things into account, such as sound currency and changes in price levels.

Although we are forced to admit the growing concentration in industry, it does not follow that the middle class is disappearing or that society may be divided arbitrarily into two great hostile groups of exploiting capitalists and exploited proletariat. Today, the stock of many great corporations is held by thousands of small stockholders. Again, the laboring class is materially better off now than at the time when Karl Marx wrote "Das Kapital." Indeed, it is a debatable matter as to whether it is relatively worse off. In spite of the inadequacy of the wages of a large portion of our laboring population, the long-run tendency of real wages has been upward. Moreover, the growth of labor organizations and industrial representation has given the workers a greater participation in the control of industry as well as a greater share in its product.

6. Early Schools of Socialism.—Although the socialists are united in their indictment of modern capitalism and in their proposal to substitute collective ownership and operation of the instruments of production for individual enterprise and private property rights, they differ widely among themselves as to other proposals and as to the

methods by which the main objective of socialism is to be accomplished. Hence, it will be necessary to outline some different schools of socialism.

Socialistic or communistic Utopias are as old as Plato's "Republic." The term "Utopian socialism," however, is generally restricted to a small group of writers who lived in the closing years of the eighteenth century and the opening years of the nineteenth century. These include Saint Simon, Fourier, and Proudhon in France, and Robert Owen in England. They dreamed of an ideal society in which voluntary cooperation would replace competition and coercion. The movement expressed itself in numerous communistic societies, such as New Harmony in Indiana, and Brook Farm in New England.

As a reaction against Utopian socialism, scientific or Marxian socialism appeared in Germany about the middle of the last century. State socialism has been regarded as a practical application of scientific or Marxian socialism. It may be said to date from the Congress of Eisenach in 1872. State socialism has also been termed "socialism of the chair" because of the advocacy of its doctrines by certain German professors of economics. It magnifies the importance of the state as the fundamental social institution and proposes to extend governmental functions to industry. State socialism favors the governmental ownership and operation of basic industries. It has also reflected itself in protective labor legislation and social insurance. After an unsuccessful campaign against this "spectre of Europe," Bismarck appropriated a number of the proposals of state socialism and put them into effect in Germany.

As a reaction against the fantastic and atheistic character of some of the proposals of early Utopian socialists, Christian socialism emerged. It developed in England under the leadership of F. D. Maurice, J. M. Ludlow, and of Charles Kingsley, who expressed his convictions in the novel entitled "Alton Locke." It stressed the immoral rather than the uneconomic character of our present industrial system. It preached the gospel of the brotherhood of man and the dignity of labor. The first great socialist was He who enunciated the great commandment that man should love his neighbor as himself. Christian socialism spent itself in humanitarian legislation and in the development of higher ideals in industry. It sought to carry the Golden Rule into economic society.

While scientific or Marxian socialism is revolutionary, Fabian socialism is evolutionary. The Fabian Society of London was organized in 1884 by a small group of English intellectuals. The name is supposed to have been derived from the Roman general, Fabius cunctator, or the delayer. The abandonment of his waiting policy in the campaign against Hannibal, the Carthaginian general, brought disaster to the Roman republic. In a similar manner popular education is regarded

by Fabians as a necessary preparation for socialism. It would be unfortunate for it to come to pass before the great mass of citizens were ready for it. Fabian socialism teaches that socialism is to come by the gradual process of peaceful change rather than by the method of bloody revolution. It points out that monopolies are becoming more and more prevalent and that governmental regulation is constantly widening. It is but a step from regulation to socialization, and Fabian socialists propose the gradual nationalization of all important industries. Thus, socialism will come almost unconsciously.[1] Fabian socialists include such brilliant writers as H. G. Wells, Bernard Shaw, and Sidney and Beatrice Webb. Of recent years, however, Fabian socialism in England has declined in favor of guild socialism.

7. Guild Socialism.—Guild socialism is a still more recent cult of socialism. It may be regarded as a hybrid of socialistic theory and trade union machinery. It developed in England, where G. D. H. Cole has been one of its chief exponents. It may be regarded as a reaction against the centralized bureaucracy of state socialism. Guild socialists claim that the factory system has robbed the worker of his independence, and that the machine process has stifled the joy of workmanship. Like John Ruskin and William Morris, they have idealized the craftmanship of the medieval guilds and have revolted against the modern standardization of the worker and his product. The guild socialist's cry is for self-government in industry. This could not be accomplished under state socialism, which necessitates the autocratic control of industry by cabinet ministers or state departments of industry. Thus, the state socialism of Germany has been regarded as stifling the initiative and creative efforts of the individual worker. Guild socialism would use the administrative machinery of modern trade unions, but in some mysterious way it would breathe into them the spirit of the medieval craftsman. It is not a revolt against the machine process itself, however, such as Ruskin and Morris voiced in their writings, or as Ghandi preached in India.

Under guild socialism foremen are to be elected by the workers, and there are to be shop committees and works councils. A national guild congress is to represent the workers of the various industries in some such way as the American Federation of Labor represents the different groups of workers in the United States. Professional and clerical groups, however, would also be represented. Thus, there would be guilds of physicians and teachers, as well as guilds of carpenters and miners. Guild socialism proposes an industrial as well as a territorial representation, and an economic as well as a political democracy. A dual concept of the state is involved. Sidney and Beatrice Webb in a

[1] Tawney, the keen critic of modern industrial society, characterized the Fabian socialists as those who pray, "Give us Socialism, Oh Lord, but not in our time."

recent book entitled, "A New Constitution for the Socialistic Commonwealth of Great Britain," propose to retain the monarchy and also the present House of Commons as representative of the consumers of the United Kingdom. Their radical proposal is the abolition of the useless House of Lords and its replacement by a new national body to represent national organizations of producers. Sovereignty is divided between the Guild Congress and the House of Commons.

8. Syndicalism.—Syndicalism is sometimes incorrectly classified as a radical type of socialism. Most syndicalists accept the socialistic indictment of capitalism and the leading theories of Karl Marx. However, they favor economic rather than political action. Syndicalism, as we have seen, may also be regarded as a revolutionary type of labor organization which favors industrial unions rather than trade unions and direct action rather than collective bargaining. It seeks the overthrow of capitalism rather than higher wages and improved working conditions.

Syndicalism proposes one big union of all workers and repudiates the present political state. It ignores the political activities of numerous socialistic groups which look toward a gradual nationalization of industry. Syndicalists advocate the general strike and condone the weapon of sabotage. They accept the Marxian principle of class struggle and eagerly await the economic revolution of the workers of the world. The new industrial state is to function through local bodies of workers and their national representatives. Syndicalism differs from guild socialism in that it is revolutionary rather than evolutionary. Moreover, it does not propose industrial representation in addition to political representation but rather in lieu of it. Control is to be in the hands of the workers who are numerically the strongest group. It has already been indicated that there is much in common among the Industrial Workers of the World in the United States, syndicalism in France and Italy, and Bolshevism in Russia.

9. Sovietism and Bolshevism.—In the strict sense of the word sovietism is merely industrial representation rather than political or territorial representation. If sovietism were fairly applied, all economic groups would be represented in an industrial parliament in proportion to their numerical strength. However, such has not been the case in Russia. Certain economic groups, such as the brainworkers and the farmers, were either excluded or unfairly represented. The word "Bolshevist" merely means "majority." Nevertheless, it happened in Russia that the Bolshevists were not the majority but rather a very active minority which succeeded in gaining control. It is often the case in revolutions that small groups succeed in dominating the entire situation. It is too early as yet to say much of the Russian situation, and an accurate description of this momentous experiment is rendered difficult because

of active propaganda both for and against Bolshevism. When its complete history is written at some future date, the truth will be found to be somewhere between the two extremes of current public opinion.

The leader of the Russian Revolution, Nikolai Lenin, outlined four different stages in its progress: (1) capitalism, (2) dictatorship of the proletariat by revolution, (3) socialism, and (4) communism. Thus, socialism was regarded as a mere step toward ultimate communism. With the progress of the Russian Revolution the large estates of the former landed aristocracy were divided among the peasants. The nationalization of the land was found to be impractical. All industries, however, were taken over by the state and managed by the Supreme Economic Council with its various production departments. There was a Commissariat of Labor which directed the labor supply and was empowered to conscript workers. The unemployed were to receive the wages of unskilled labor and a system of public labor exchanges was organized. The state fixed the prices of goods produced and arranged a graduated scale of wages depending upon skill and technical knowledge. Because of the embargo of foreign nations, Russia found it difficult to obtain capital and other necessaries for the health and industry of the nation. Food for the industrial population of the cities was requisitioned of the agricultural workers who were paid in the worthless Russian currency. Great suffering resulted from the breakdown of existing systems of exchange and transportation. The chaotic condition of Russian industry finally resulted in a number of concessions to capitalism and a partial return of private enterprise. The present economic situation of Russia is more comparable to a modified form of state socialism than to pure communism and sovietism.

The much-heralded failure of the Bolshevistic experiment in Russia is often cited as an illustration of the impossibility of socialism. It must be pointed out that the Russian experiment neither proves nor disproves the success of socialism. Indeed, Bolshevism is more of an experiment in communism than socialism. Moreover, a revolutionary period is hardly a fair test of any movement. Social, educational, religious, and political changes were going on simultaneously with economic changes. It is doubtful how well a capitalistic government would have succeeded under the burden placed upon it. Demagogues competed with statesmen for control and immediate expediency triumphed over ultimate aims. The open hostility of foreign nations colored the character of the Russian Revolution, just as a century before a similar situation had changed the character of the French Revolution.

10. International Progress of Socialism.—A sketch of the development of socialism is difficult because of the existence of many different types and movements. The strength of socialism has been dissipated by the secession of still more radical elements, such as the communists

and the syndicalists. The World War and the Russian Revolution divided the socialists still further. A proper appraisal of their strength must include such an allied movement as that of the British Labor Party. In the last place, the indirect achievements of socialism are perhaps of more importance than its direct achievements. Thus, socialism has often reflected itself as the voice of unrest against existing evils and in favor of socialistic legislation, such as social insurance, progressive income, inheritance taxes, and the public ownership of utilities. Any appraisal of the strength of socialism must include not only its allied movements but also its indirect influences. At the present time, however, socialism is not merely the economic philosophy of a small group of visionary idealists, but the practical political conviction of a large number of statesmen and voters. There are one or more socialist parties in every important nation.

Socialism has been an international rather than a national movement. Hence, it calls upon the workers of all nations to stop capitalistic warfare and to unite in a new war against capitalism itself. The first such international appeal was the Communist Manifesto issued in 1848. An International Workingmen's Association was held in 1864, which developed into what was known as the First International. It endured eight years, but was finally disrupted by a schism between the Marxian socialists and the communist anarchists under the leadership of the Russian radical, Bakunin. The Second International was inaugurated in Paris in 1889 as a direct movement against militarism. The triumph of nationalism during the World War meant the end of this Second International. The Third or Communist International was organized in Moscow in 1919. It is a direct reaction against political and evolutionary socialism. A product of Russian Bolshevism, it seeks to spread to other lands the system of soviets or workingmen's associations. Conservative socialists have refused to affiliate themselves with the Third International.

11. State Socialism in Europe.—The earliest development of socialism took place in Germany, and the chief stronghold of state socialism is still on the continent of Europe. The Social Democrats of Germany were the first important political party to organize on a collective platform. They professed adherence to Marxian principles and attempted to bring about state socialism. Expediency, however, dictated a resort to evolutionary rather than revolutionary progress. Practical political experience also caused a resort to constitutional methods rather than to violence. Although Bismarck and Emperor William I attempted to stifle the socialist movement in Germany, it grew steadily in numbers and political importance. In spite of the government's refusal to reapportion seats in the Prussian Assembly in accordance with changes in population, the number of socialist deputies increased. At the close

of the last century the Social Democrat party throughout the German Empire polled two million votes, and just before the World War five million votes, which represented the largest popular vote of all parties. Although the socialist deputies had previously refused to vote for military expenditures, they were submerged during the war. In Germany, as elsewhere, nationalism triumphed over socialism. A crisis was finally reached in the last year of the war, when the socialists directed the republican revolution of 1918. The late President Ebert, a conservative socialist, headed the new coalition government of Germany. The Spartacan revolt was the work of a group of radicals who were communists rather than socialists.

Like most continental countries, and unlike England and the United States, Germany has many political parties rather than two chief ones. Coalition governments are common in Germany and France. In the German parliamentary elections of 1920 and 1924 the Social Democrat party polled eleven million and seven million votes, respectively. It is still the largest single political party in Germany. In spite of a nationalistic reaction which crystallized in the election of President von Hindenburg in 1925, the socialists still hold the balance of power. In the presidential election of April, 1925, the Social Democrats received a popular vote of almost eight million out of a total of twenty-seven million votes. At the same election, the communists received about two million votes. Foreign affairs, reparations, and currency problems have diverted the attention of German statesmen from programs of socialization. Socialists have been attacked by nationalists on the one extreme and communists on the other. Nevertheless, German socialists have attempted to further their already highly developed program of public ownership and operation. This socialization of industries is perhaps even more important in German municipal life than in her national industries.

Most of the new republics of Central Europe are also in the control of socialists, and a mild form of state socialism predominates. Such is the situation in Austria. Under the leadership of Bela Kun, Hungary experienced six months of communism and sovietism. Although the nationalization of industry and agricultural land was effected, a conservative reaction soon triumphed. In Czechoslovakia a progressive republican government has been in control since 1920, and the Social Democrats maintain a large portion of the total number of seats in the assembly. Most countries in central Europe are now republics with various programs of state socialism. Although the socialists seem to hold the balance of power, however, nationalism and nationalistic parties are important. There are also powerful undercurrents of radicalism and communism. The westward spread of sovietism, however, has apparently been checked.

In France, there are a number of socialist factions, which range all the way from conservative and constitutional state socialism to radical syndicalism. We have seen that syndicalists repudiate the political activities of socialists and would rely on such economic weapons as direct action. As syndicalists propose the elimination of the present political state, they border on anarchism. Syndicalists, communists, and other radical groups have been the source of considerable embarassment to many French ministries which have risen and fallen with bewildering rapidity in recent years. The socialist vote in France increased from the formation of the Third Republic in 1870 to the outbreak of the World War in 1914. Numerous socialists held cabinet positions in the various coalition governments. During the World War nationalism triumphed over socialism in France as it did in Germany. After the armistice, however, socialists increased in power, and in 1925 they were in control of the Chamber of Deputies.

The Socialist party has been very strong in Belgium, where the election of 1925 gave them a larger vote than that of any other party. There are also strong Socialist parties in other small countries of Europe, such as Holland and the nations of Scandinavia and the Balkans. Socialism developed to such proportions in Italy, that a nationalistic reaction in the form of Fascism occurred. The dictatorship of Mussolini perverted parliamentary government and violated the constitutional rights of freedom of speech and freedom of the press. A military dictatorship also exists in Spain and in other countries of Europe.

12. British Labor Party.—The British Labor party is a complex of trade-union machinery and socialistic principles. Its policy is opportunistic, but constitutional. It savors more of Fabian and guild socialism than of Marxian or state socialism. The program of the British Labor party includes the nationalization of the railroads, mines, and other large industries, as well as the socialization of extensive private holdings of land. Strict governmental regulation is proposed for what industries are left to individual enterprise. The reduction of economic inequality is sought through progressive income and inheritance taxes. Strong belief in social insurance is maintained and opposition is expressed to any reduction in its scopes and benefits.

The significance of trade unionism in British political life may be illustrated by the fact that in 1920 trade unions possessed a membership of over eight millions. Unlike American trade unionism, British trade unionism has expressed itself politically. The British Labor party is a powerful factor in national politics. During the last generation it has grown more rapidly and more consistently than any other party in Great Britain or in any other great democracy. In 1906, it polled a popular vote of a third of a million and had twenty-nine representatives in Parliament; in 1910, a half million popular votes and forty-two representa-

tives; in 1918, over two million popular votes and seventy representatives; in 1922, four million popular votes and one hundred and forty-four representatives; in 1924, four and a half million popular votes and one hundred and ninety-two representatives; and in 1925, five and a half million popular votes but only one hundred and fifty-one representatives in Parliament. In 1924, there were three strong political parties in England, the Conservatives, the Liberals, and the Labor party. The Labor party had become the strongest single party, although it represented but a minority of the total number of voters. Consequently, it was called upon to form the ministry in 1924. Ramsay MacDonald, as leader of the Labor party, became prime minister of England. In a later election of the same year, however, the Labor party lost its control of the government, in spite of the fact that it polled more votes than ever before. The numerical plurality of the Conservative party, which triumphed at the polls, is to be explained by the fact that several million Liberals voted as Conservatives in order to defeat the Labor party. Great Britain returned to its former two-party system by the reduction of the Liberal party to one of minor importance.

13. Socialism in United States.—The majority of the labor group in America have been opposed to the formation of a separate political party. At the present time, however, there are a Socialist party and a Socialist Labor party in the United States. Although neither of these has attained much numerical strength, the socialist vote has increased. The late Eugene V. Debs, when a socialist candidate for president, received almost a million votes in one of the presidential elections. In 1919, the Socialist party in America was split into three parts, the Conservative right wing remaining in the Socialist party, the ultraradical left wing forming the Communist party, and the central group forming the Communist Labor party. Both of the latter organizations become affiliated with the Moscow International. Unlike the socialists, they despaired of political action and gradual legislative reform. Because of their advocacy of direct action, they should be classified as syndicalists rather than as socialists. In December, 1921, an attempt was made to amalgamate these groups into the United Communist party.

Governmental hostility during the war and the years which followed forced a policy of secrecy. It drove a number of radical movements underground. Although there has never been a strong national Socialist party in the United States, the socialists have been sufficiently strong in certain communities to elect representatives to the state legislatures. Socialist assemblymen who were recently elected to the New York legislature were refused admission at first by the other members, upon the mere ground that they were socialists. This action was a direct challenge to representative government in America. In Milwaukee

a socialist mayor has been elected several times, and a socialist Congressman, Victor Berger, has been sent to the national Congress.

14. Some Criticisms of Socialism.—Students of economic problems may accept the socialistic indictment of our present industrial system without accepting socialism as the best way out of the situation. Moreover, they may accept the ideals of socialism without believing that socialism will successfully bring them to pass. One cannot but admit the economic and human wastes of the present industrial system. One cannot but admire the attempt to substitute social service for the profits motive. It is necessary, however, to raise constantly the practical question as to whether such a scheme will work. Although socialism may gradually improve human nature, we live in an acquisitive society. Although it is dangerous to speak in terms of instincts, self-interest does seem to be a powerful inherent force.

In most individuals, however, there is an inherent or acquired desire to win social recognition. It is possible and desirable that this be expressed in some other way than in the mere accumulation of wealth. It is doubtful, however, if individuals will exert themselves so strenuously for the good of society as for their own individual welfare and that of their immediate group. Socialists reply that they do not propose to eliminate the material rewards of industry, but merely to reduce them. Moreover, social prestige through economic advancement is as great an incentive as material rewards. Although there might be little differences in wages, most individuals would prefer to be executives rather than common laborers. Hence, they will exert themselves to greater efforts because of a desire for leadership.

Private property would be seriously altered by the elimination of the rights of inheritance and private ownership of producers' goods. The right of an individual to own and to bequeath wealth has been a powerful motive toward economic progress. Individual initiative rather than collective enterprise has shaped production.

Not only is the economic motive toward production under socialism rather weak, but there are also obvious administrative objections. We have indicated that the determination of wages and prices would be a difficult task in the absence of competition. Moreover, the determination of the course of production also would be far from easy. It would involve a greater standardization of human wants than exists at present. Although distasteful to certain individuals who glory in a great variety of economic goods, it need not result in a drab uniformity. Greater standardization would certainly produce an enormous economy of material and effort. Moreover, it is quite likely that collective consumption would be increased at the expense of individual consumption. Public art galleries would supplant private collections and public parks private estates.

If production is no longer in the hands of individual enterprisers who seek to make profits by anticipating the wants of individual consumers, who will be empowered to direct industry and to shape the course of economic production? Competition with its selective power in producing leaders will have been removed. It is contended that socialism is merely an attempt to substitute political competition for economic competition, and that the latter is far more efficient than the former. Thus, the average individual considers more carefully how he spends his money than how he votes. Our political democracy is far from efficient, and socialism substitutes the successful politician for the successful business man as the director of our industrial system.[1]

Has our trial of governmental operation of certain public utilities been sufficiently successful to warrant the universal extension of this system? The direction of the great army of workers would be as difficult as the selection of leaders. Who would be clerks and who would be ditch diggers? Psychological tests and vocational education have not progressed sufficiently far for educational leaders and government employment experts to place men properly in industry. Moreover, such a selection would be far from democratic. Socialism, however, might provide sufficient competition for all individuals to find their own level in economic society. Although admitting biological differences in individuals, socialism would seek to provide equality of opportunity. Moreover, it might provide shorter hours of work in the more disagreeable tasks and higher pay for those occupations which are viewed with social disdain. At present, higher pay and shorter hours characterize the more pleasant and dignified occupations.

There are numerous arguments against socialism which are rather weak. It is contended that socialism would prevent the payment of interest upon capital, because of its elimination of property incomes. As capital is the result of saving and as saving involves abstinence, the abolition of interest as a form of property income would decrease savings and prevent the further accumulation of capital. The socialist replies that capital as well as land would be owned collectively and that saving would be done collectively rather than individually. The state would produce capital goods as well as consumption goods. It would systematically set aside a replacement fund for industry.

15. Summary.—Although there are many different kinds of socialism, their common characteristic is the collective ownership and operation of the instruments of production rather than a reliance upon individual enterprise and competition. A considerable change in the institution of private property is involved, for the inheritance of large estates and the existence of property rather than service incomes would be prevented. Socialism is not communism, although certain thinkers have regarded

[1] CARVER, T. N., "Essays in Social Justice," chap. 9.

the former as a step toward the latter. Socialism is not anarchism, for the former magnifies the state and the latter seeks to eliminate it.

The most complete statement of the theories of socialism is to be found in "Das Kapital," by Karl Marx. He developed the economic interpretation of history, the belief in the concentration of industry and the elimination of the middle class, the theory of overproduction as the cause of industrial crises, the doctrine of class struggle and the exploitation of the proletariat, and the labor theory of value. Marxian socialism is also known as scientific socialism. It is deterministic, for it regards the revolution of the workers and the ultimate triumph of socialism as inevitable. Fabian socialism is evolutionary rather than revolutionary. State socialism seeks the government operation of industry and proposes the nationalization rather than the regulation of basic industries. Guild socialism is a reaction against the bureaucracy of state socialism and proposes self-government in industry. It is an idealization of trade unionism and seeks the development of works councils and national guild congresses of the workers. Syndicalism is economic rather than political, and it proposes direct action of the workers rather than legislative progress toward the nationalization of industries.

Socialists criticize the present economic system upon numerous grounds. They contend that competition is wasteful. Large-scale production is more efficient than small-scale production and results in many savings in production and marketing. There seems to be a natural trend in industry toward the final step of monopoly. Therefore, socialists propose the substitution of collective monopolies for private monopolies. The profits motive is selfish and results in numerous economic maladjustments under our present system of individual enterprise. There are human wastes, as well as material wastes, which would be eliminated if production were carried on in the interests of social welfare. Moreover, glaring inequalities in income would be impossible and a greater equality of opportunity would be permitted.

It must be admitted that the socialists' indictment of the present economic system is sound. It does not follow, however, that socialism would remedy those faults which it so keenly discloses. Nor does it follow that we should scrap the present economic system and build anew rather than strive merely to eliminate existing maladjustments. The institution of private property has been an important factor in economic progress, and the sordid profits motive has stimulated individual enterprise to greater economic production. Whether the social service motive would be as effective is doubtful. Again, numerous administrative problems would confront the new socialist state, such as the wise selection of leaders, the determination of wages and prices, and the direction of the productive forces of industrial society. For these and other reasons many individuals who accept the ideals of socialism reject socialism as a

practical solution of our economic problems. They are socialistic, but not socialists. Many of the greatest results of socialism have been indirect rather than direct results.

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Questions for Discussion

1. What do you understand by the term socialism?
2. In what ways might one be socialistic without being a socialist?
3. Differentiate between (1) socialism and anarchism, (2) socialism and communism, and (3) socialism and syndicalism.
4. State five tenets of Karl Marx.
5. Criticize each of these in turn.
6. Upon what grounds do the socialists criticize modern capitalism?
7. Which of these criticisms seem sound to you and why?
8. If one accepts the socialist's indictment of modern capitalism must one also accept socialism? Why or why not?
9. Contrast revolutionary with evolutionary socialism.
10. Outline some of the leading schools of socialism.
11. Contrast state socialism with guild socialism.
12. What changes would guild socialism involve in the nature of the state?
13. Distinguish between the ideals of socialism and the practical possibilities of socialism.
14. What administrative difficulties do you see in the way of socialism?
15. Do you believe that the profits motive can be eliminated?
16. Should competition be eliminated or regulated? Why? How?
17. Distinguish between regulation and nationalization.

Topics for Investigation

1. The progress of socialism in Germany before 1914.
2. Socialism in Germany since the Revolution.
3. Socialism in France.
4. Socialism and international warfare.
5. Socialism and the British Labor party.
6. Bolshevism and private property.
7. Concessions to capitalism in Russia.
8. The socialist movement in the United States.
9. Syndicalism in France and Italy.
10. The First, Second, and Third Internationals.

CHAPTER XXI

INDUSTRIAL AND SOCIAL PROGRESS

THE PROBLEM OF ADJUSTMENT

1. Economic Utopias and Panaceas.—One of the earliest and most famous of all Utopian schemes was Plato's "Republic," in which he pictured an ideal city state. It was communistic and cooperative and based on a very interesting division of labor. Toward the close of the Middle Ages, William Langland wrote his "Vision of Piers Ploughman," an idealization of the England of his day in which many existing wrongs were righted. One of the greatest of all Utopias, and the one which has given its name to all similar plans, was the "Utopia" of Sir Thomas More. It appeared about 1516 and sharply criticized many of the evils of Tudor England. In More's "Utopia" there were no dynastic wars, no leisure class, and no unemployment. The city beautiful contained public schools, free hospitals, and reformatories for criminals. A little later Francis Bacon published the "New Atlantis," in which his temple of science was a distinguishing feature. In it were the statues of men of science, inventors, and discoverers, rather than men of war. Among the more recent Utopias are Bellamy's "Looking Backward" and William Morris's "News from Nowhere."

Each age has dreamed its own Utopia, but has failed to reach it. Nevertheless, the ideals of one age have often become the normal conditions of a later period. A chronological survey of Utopias will show both a raising of ideals and a progression toward former ideals. The advance in the ideals themselves is as significant as the progress toward former ideals. Social unrest, as reflected in the formulation of ideals into fantastic Utopias, is a sign of progress rather than an indication of the decadence of the times. Stagnation is the fate of those lands whose old men no longer see visions and whose young men are unable to dream dreams.

A progressive society is a critical society and one which is characterized by advancing ideals of social justice. Discouragement may be due to the fact that social ideals are advancing as rapidly as social development toward these ideals. Social unrest will always exist in a progressive society, but an unprogressive society will suffer from maladjustments of which it is not conscious. Self-satisfaction is as characteristic of a static society as of a hopeless individual.

No society will ever reach its own Utopia; nor will any earthly Utopia ever endure in a permanent and unchanging fashion. Utopias merely reflect the civilizations which give them birth. On the inside of his shield the author traces the maladjustments of his own day, which he then hammers into the beautiful pictures of the ideal Utopia which appears on the outside of the shield.

An economic panacea is something which will quickly and painlessly cure all the ills of industrial society. Such a concept is as unscientific as the fountain of youth or the philosopher's stone which would turn base metals into pure gold. A panacea for all the maladjustments of economic society is as imaginary as an economic Utopia, but less inspiring.

Socialism may present certain very desirable ideals and single tax may give us some very useful ideas, but neither socialism nor single tax will bring us to an economic millennium. To advocate any scheme of social reform as a general panacea for all economic evils, and as a perfect plan which will endure indefinitely in its original inspired form is not only unscientific but also unfair to that particular economic creed. Economic progress is made by the slow and steady elimination of economic maladjustments rather than by the sudden regeneration of society through some revolutionary economic gospel.

2. Economic Maladjustments and the Process of Adjustment.—Maladjustments are the results of the failure of society to bring itself into harmony promptly and properly to new social forces or to a new economic environment. The process of adjustment may be seen in the forces of nature. During the course of centuries the earth's crust has been lifted up and a mountain barrier formed across the pathway of a river. Equally slowly and steadily, however, the stream proceeds to cut a new and lower bed for its passage to the sea. Witness the natural geological adjustment in the physical environment at the Delaware Water Gap or at Niagara Falls. Social maladjustments, like the rocks in the former river bed, are obstacles in the path of society, boulders through which the stream of social progress must cut its way.

Social maladjustments are easily explicable in static societies, where the hard rocks of tradition resist erosion. It is not difficult to understand why, in spite of rich natural resources, the specter of poverty stalks through the land and the death rate rises to enormous proportions. The folkways of ancient China, for illustration, balked for a long time her social and economic development. In the United States, however, there is less reason for the persistence of maladjustments. America is a new country, alive with modern ideas, and less hampered by the binding ties of inertia and tradition. It is rather startling, therefore, to find in a land of popular education and democratic ideals a society that fails to adjust its social organization into conformity with its economic progress.

The Industrial Revolution has so transformed our economic life that it has made social adjustment imperative. But a number of social maladjustments have continued in spite of the transformation of our industrial environment. Poverty still exists in a land of riches, and women and children continue to labor for long hours in unsanitary factories. Housing and health conditions do not conform to modern scientific knowledge nor to present ideals. Men are still carelessly at work in dangerous trades and every year takes an enormous toll of human lives in needless industrial accidents. Friction between labor and capital is not yet peacefully and democratically adjusted but flames into strikes and other industrial conflicts. Our survey of many of the social problems of industry attests the necessity of social adjustment.

Adjustment consists of the removal by society of numerous obstacles in the path of progress. Although they may have been suited to an older environment, they are out of harmony with present conditions. Society must, therefore, modify its economic organization and social institutions, if full advantage is to be taken of the new developments in industry. For example, traditions of hard, continuous toil, of inadequate wages, of bad housing conditions, and of unhealthy working conditions have come down to us from an age when such ideas were the outgrowth of meager physical resources, the lack of scientific knowledge, or the absence of power machinery. But today, an 8-hour day, comfortable standards of living and good working conditions are attainable.

It has been our problem in this book to trace a number of economic maladjustments and to indicate certain ways out of the dilemma. The student has been free to make his own choice of the various suggested solutions, each of which has its advantages and disadvantages. These economic maladjustments may be met from many different angles, but among the most important approaches are that of the state through legislation, that of organized labor through collective bargaining, and that of individual employers through various plans of economic betterment. These different avenues of economic adjustment and social welfare are similar in that they are evolutionary rather than revolutionary. On the other hand, the approach of certain critical schools of thought, such as syndicalism and some radical forms of socialism, is the method of revolution. The overthrow rather than the improvement of the present industrial system is sought.

3. Picturization of Adjustment.—Social adjustment has been very interestingly described in the following word picture.[1] This analogy is colored by a strong conviction as to the existence of progress and the possibilities of the social control of industry.

Adjustment is an approximation to the normal. Through all nature adjustment is continuous. A river, for example, adjusts itself to the changes in the

[1] NEARING, S., "Social Adjustment," chap. 1.

earth formation. If a mountain range is thrown up, the river wears down its bed until, flowing at a normal gradient, it has created a cañon of the Colorado. But the river is not content; it flows through a great plain like the Mississippi Valley, with its vast alluvial deposits and its broad, slow-moving stream. The river is seeking to establish a normal gradient, and before this attempt to secure adjustment, even the hills, "rock-ribbed and ancient as the sun," must succumb. Society, like the river, seeks to adjust itself to the changing contour of the environment by wearing it away and smoothing it down until a normal relation is established between men and their surroundings. Were society as consistent and constant as the river, even those obstacles to progress which like the hills are "rock-ribbed and ancient as the sun" would be removed. Cascades, whirlpools, rapids, eddys are abnormal in rivers, and the river seeks constantly to eliminate them and to secure a regular, uniform bed. Untimely death, malnutrition, vice, overwork, and poverty are abnormal in society, and a dynamic group seeks constantly to eliminate them and to secure a more perfect adjustment to the normal life. The river works blindly—naturally, to secure its end; men work intelligently—consciously, to secure theirs. Could the river employ guncotton and electrical power, how much more effective would be its work! The river accomplishes its purpose by means of many particles of water, all flowing in the same direction—cooperating, wearing away the stones. Society accomplishes its purpose by means of many men and women, all aiming at the same goal—cooperating, removing, one by one, the obstacles to progress. The river seeks adjustment to the normal through the laws of nature; man seeks adjustment to the normal by combining nature's laws and adding to them a touch of human genius. The work of the river is wonderful; the efforts of man are sublime.

One generation creates an ideal: the evolution of the succeeding age makes this ideal the normal. Thus the ideal of one age becomes the normal of the age that follows.

Social adjustment is in any age an approximation to the normal; but with invention and progress, education and evolution, the potentiality of each age is one step in advance of the normal of the past age. As possibilities increase the normal standard of society moves forward. Each age must, to complete its adjustment, realize all of these possibilities, and when the normal possibilities of any age are realized, its adjustment is complete.

Adjustment may be secured either by changing men to suit the demands of the environment, or by changing the environment to suit the needs of men. Primitive society proposed to change men—to eliminate sin, to purge men of evil thoughts, to purify them, and thus to secure adjustment. While recognizing the desirability of purity in thought and action, modern society demands that the environment be changed also in order to afford universal opportunity for the purifying of thought and action. Men's thoughts must be elevated and their ideals established, but this can be done with difficulty in the presence of filth, overcrowding, vice, overwork, and malnutrition. Men need regeneration, but so does the environment.

4. Active and Passive Adaptation.—The methods of adjustment then may be either active or passive, and the process of adaptation may be either conscious or unconscious. Passive adaptation can be seen in

biological evolution among the lower forms of life. The force of natural selection preserves favorable variations and eliminates the unfavorable. In this way evolution becomes the survival of the fittest. But in the case of mankind, intelligence and acquired knowledge make it possible for human beings better to adapt themselves to their environment to avoid extinction. Moreover, man is better able to change his environment into conformity with his own needs.

Active adaptation or progress implies the possibility of rational changes in our economic environment to make it gratify more completely our economic wants. It also involves improved human relationships within a group and between groups. Progress is not mere change, but conscious and purposive changes. Hence, social objectives and ideals are implied.

These new concepts of applied economics were not present in the *laissez-faire* philosophy of earlier economists. An economics of social welfare is now struggling for expression.

It must be remembered, however, that social objectives change from time to time. Moreover, at any given time there may not be a complete agreement as to what constitutes this body of social objectives. Ideals are subjective rather than objective. Again, social and economic ideals are not static. Our ideals may be advancing at the same time that society is progressing toward these ideals. This fact often obscures the existence of progress, just as a change in group objectives often changes the direction of social striving.

The constant elimination of maladjustments is the aim and the test of a progressive society. There never will be a time, however, when no maladjustments will exist. Society is dynamic and the continuity of change means that the process of adjustment must be continuous. The elimination of a serious maladjustment merely means that attention will now be focused on a less serious one or on a new maladjustment which has been brought about by the change in conditions. Our economic environment is continually changing, and standards of social justice are constantly being raised.

5. Historical Perspective.—Although much remains to be done, society has already made many progressive changes or adjustments. Serfdom and slavery have been abolished, and no longer do men toil so arduously and incessantly to produce the bare necessities of life. Primitive peoples lived from hand to mouth in the absence of any large accumulation of a stock of goods. There was no social surplus in a deficit economy of pain and deprivation.

Since the Industrial Revolution, however, production has so increased that goods formerly regarded as luxuries are now consumed by all. Ships from distant parts of the world bring to the poor man's table commodities which princes of old could not have purchased for a king's

ransom. The dream of Roger Bacon has come true, for mechanical inventions are now performing tasks which would formerly have been thought impossible. The results of power machinery are increased leisure and wealth. Our potential resources are so abundant and our productivity is so high that exploitation and underconsumption are unnecessary. Moreover, higher ideals now prevail, and public opinion will no longer sanction what was once regarded as necessary and even justifiable.

If one thinks in terms of his own generation, the cynic can easily find sufficient grounds for pessimism and for despairing of social progress. If he will avail himself of the telescope of history, however, and look backward across the centuries, his faith in economic progress will be restored. Moreover, recorded history is but a brief span in the long, long story of social development. The prehistoric ages were many times longer than the historic, that is, since the invention of writing.

James Harvey Robinson has given us a good historical perspective by using the hours of the clock to show the relative shortness of the historic period as contrasted with the prehistoric period and the brevity of modern history as compared with ancient and medieval history. To record man's prehistoric progress on this scale, we are forced to turn the hands of a clock past the first eleven hours and over half way around the last hour. According to this scale, the dawn of history in the river valleys of the Nile and Euphrates took place at about twenty minutes to twelve. The Christian era began about eight minutes to twelve and the Industrial Revolution has taken place within the last minute. This illustration shows not only the antiquity of man and the length of his social evolution but it also reaffirms our faith in progress by showing the accelerated rate of recent development.

The first steps in economic progress were inconceivably slow, but each new invention or superior adjustment has created increased possibilities for further discoveries and improvement. Judged by such a scale of progress Plato is a relatively recent reformer, and the abolition of slavery is almost a contemporary event. The Industrial Revolution is likewise a very new development, and society has not yet adjusted itself to these industrial changes. The perspective of time is essential to the student of the social problems of industry, if he is to maintain his idealism. Otherwise, labor problems represent a gloomy industrial pathology.

6. Various Interpretations of Progress.—Some writers deny the existence of progress. The so-called "progress" of the arts has resulted merely in more disastrous wars. Witness the terrible destruction of life and wealth during the World War among the "progressive," "civilized," and "Christian" nations of Europe and America. Again, has the Industrial Revolution done more than merely to increase the wealth of the world? Has it increased human happiness or raised social ideals? Thus, John Ruskin indicted the crass materialism of modern industrial-

ism and criticized the lack of vision of contemporary economists. He sought to breath into political economy the spiritual aromas of beauty and service. Not more goods but better goods, not mere wealth but nobler men were his ideals of industry. Social rather than economic values were stressed in his gospel of wealth. Judged by the standards of John Ruskin and William Morris, the period introduced by the Industrial Revolution was one of retrogression rather than one of progress.

Many critics neither affirm nor deny progress. They contend that its existence is impossible to determine because of the absence of objective tests or commonly accepted standards of progress. Change is obvious, but progress is uncertain. Progress is more than mere change, however, and a dynamic society is not necessarily a progressive one.

Progress implies change in the direction of social welfare. Such a definition of progress, however, is of little value, for we are again unable to discover any objective tests or commonly accepted standards of social welfare. All concepts of welfare are subjective, ephemeral, and relative. The Greeks of Periclean Athens might have interpreted social welfare in terms of aesthetic culture, the Roman statesmen in terms of an expansion of the *pax Romana*, and the medieval ascetic in terms of spiritual devotion. Common agreement as to what constitutes social welfare is as impossible as universal accord on the nature and sources of individual happiness.

Although universal agreement as to the nature of progress is impossible, two factors stand out predominately in a discussion of social and economic progress, namely the social ideal of group survival and the economic ideal of increased prosperity. In Chap. I was noted Carver's definition of a scientific morality, namely, that code of conduct which makes for group longevity. Social survival is surely essential to progress, but is it the only test of social progress? Again, increased prosperity may be made a test of economic progress, but it is not the only test of progress. Economic wealth and social welfare are not synonymous. Although we may restrict our discussion of progress to merely economic progress, we react from accepting increased material prosperity as our sole test even of economic progress.

7. Economic Ideals of a Progressive Society.—The determination of progress implies the existence of certain goals of social welfare. Although there is no generally accepted definition of progress, and although there is no common agreement as to any objective tests and measures of social welfare, it may be possible to suggest certain economic ideals of a progressive society. Among them are prosperity, conservation, efficiency, equality of opportunity, and cooperation.

Prosperity has been defined as an abundance of economic goods. The United States, as contrasted with China, is a prosperous nation, just as an individual with a large income is more prosperous than an

individual with a small income. A poverty-stricken group of savages may be content in spite of their poverty, if they have known nothing better. Individuals also may be happy if their acquisitive desires have been subordinated to other motives. Saint Francis of Assisi, for illustration, represents the ascetic ideal rather than the so-called "economic man." Happiness is a subjective rather than an objective term, and the economist relinquishes this problem to the philosopher and the psychologist. Ordinarily, however, a certain amount of material worldly wealth is necessary to individual and social well-being. Wealth and welfare are not identical, but there does seem to be some connection between them.

National prosperity, like individual prosperity, is not an end in itself but merely a means to greater group welfare. The social surplus of modern civilizations, as compared with the dire poverty of primitive peoples, is some proof of economic progress. The difference between medieval and modern standards of living is also an indication of material progress. Economic progress, however, does not automatically produce cultural and spiritual progress, any more than the growing prosperity of the *noveau riche* implies an increased refinement. Nevertheless, civilization cannot bear its cultural fruits until a satisfactory adaptation has been made to the economic environment. A social surplus in excess of bare subsistence must first be achieved. Economic prosperity is at least conducive to, if not productive of, a higher civilization and an improved culture.

Although there may be great national prosperity, many individuals will not enjoy it if the wealth of the country is so distributed that glaring inequalities of income exist. Individual prosperity does not follow from national prosperity. Dire poverty existed among the wretched masses of wealthy Rome and still persists in prosperous America.

Another ideal of economic progress is that of conservation. Just as prosperity means an abundance of economic goods, so conservation implies the wise use of our economic wealth. What thrift is to an individual, conservation is to a nation. The ideal of conservation implies not only a consideration for one's fellow citizens but also for posterity. The ruthless individualism of one generation may impair the prosperity and welfare of the following generations. Although we have made a fairly good adaptation to our physical environment, we have been very prodigal of the resources of nature. The rapid increase of population within the United States and the depletion of many of our natural resources have made conservation imperative.

The ideal of human conservation, however, is even more important than the conservation of our natural resources. John Ruskin has said that there is no wealth but life, and life more abundantly—or, rather, life more completely and comfortably—is an economic ideal. A further proof of progress is the lengthening span of human life, due to the advance-

ment of medical science, the art of surgery, and the practices of public hygiene and sanitation. The average length of life in modern Europe and the United States is several times as great as that of medieval Europe and the backward countries of today. In spite of unscientific tradition, statistics show that the average life span has lengthened appreciably within the last few generations. Human conservation involves not only a lower death rate but also higher standards of living, improved working conditions, and increased leisure time. Excessive hours of employment, dangerous working conditions, and unsanitary factories are present menaces to human conservation.

Another economic ideal is that of efficiency. It has sometimes been defined as maximum production with minimum effort. Efficiency and conservation are supplementary, for the former means maximum output and the latter minimum waste. The present prosperity of the United States is due in no small measure to our industrial efficiency. Nevertheless, much more efficient production can still be achieved. The possibilities of the scientific management of industry are enormous. But in our great search for increased productivity and in our devoted worship of this new god of efficiency it is important to remember that producers must not be sacrificed to product. It is essential that industrial efficiency be accompanied by human conservation rather than be advanced at its expense.

Equality of opportunity has been defined as the equal opportunity of all individuals to become unequal, that is, to develop to the limits of their inherent abilities. A flat economic equality would represent neither social justice nor economic progress. On the other hand, it is true that the increase of prosperity which followed the Industrial Revolution has not been evenly distributed. Large fortunes and poverty still exist. Hence, progressive income and inheritance taxes have been imposed. Moreover, the development of public school systems and the spread of democratic ideals in education indicate progress in the direction of equality of opportunity. Industry itself seems to be feeling the new impetus. It is not unthinkable that the present century may witness a development of industrial democracy similar to the development of political democracy during the past few centuries. Employee representation and the diffusion of stock ownership illustrate the new ideal of industrial democracy.

Another ideal of industry is the substitution of cooperation for conflict. Conflict of interests can never be eliminated, but these conflicts can be settled through parliamentary and judicial channels rather than by economic warfare. Industrial conflict involves great economic waste and high social costs. Economic progress does not involve the elimination of competition, but rather the regulation of competition. It merely seeks the termination of wasteful and predatory forms of com-

petition. By the social control of competition individual acquisition will be determined by individual productivity rather than by inheritance, mere cleverness, or fortunate circumstances.

8. Methods of Progress.—There are as many interpretations of the methods of progress as there are of the nature of progress. One group of thinkers may be termed the "evolutionists." They look at the problem of social progress from the standpoint of natural selection and social adaptation. To them progress is an unconscious and undirected process in which the survival of the fittest is the determining factor. Hence, the extreme evolutionists omit all moral implications from their mechanistic interpretation. To them progress is the result of a favorable geographical environment, endowed with a temperate climate, sufficient rainfall, and abundant natural resources. Thus, these geographical determinists would give us a purely economic interpretation of history.

Other interpreters of progress stress heredity rather than environment as the dominant factor. According to these writers, certain races representing superior biological stocks have made unusual contributions to civilization which make possible the accumulated progress of society. Through their military or peaceful conquests of backward races the advance of world civilization has been accomplished. Modern anthropologists, however, challenge this tradition of racial superiority and inferiority.

On the other hand, within a particular group important individual differences are clearly discernible. Individuals possessed of superior physical and mental qualities, which are inherent rather than acquired, are enabled to transmit them. The conscious improvement of the biologic stock of succeeding generations affords the basis of future social progress. Such prophets of progress are known as eugenists, as they stress not only the biological factor but also its social control by the process of artificial rather than natural selection.

Other writers have interpreted progress in terms of dominant men. It is well to keep in mind the importance of the individual in determining the course of human progress. In "Representative Man" Emerson goes so far as to assert that an institution is but the lengthened shadow of a single individual. In his "Heroes and Hero Worship," Carlyle has also expounded the "great man theory" of history and progress. Although this position may be carried too far, it cannot be denied that economic progress requires effective leadership. Asia has produced most of the great religious leaders, Europe many statesmen, artists, and men of letters, but America has given to the world great inventors and captains of industry. It is beyond question that the personal element is a vital factor in the attainment of both progress and social morality. A given individual is the product of his environment, but

he also has some power to modify it. Scientific causation is not the same as a pure determinism.

9. Evolution and Progress.—Evolution and progress are different, because the latter implies some conscious effort. Although evolution results in the creation of superior species, the process is passive rather than active. It is only after intelligence is evolved and human reason itself becomes a factor in further development, that the term "progress" should be used.

The method of evolution is that of natural selection. Nature is very prodigal, especially with the lower forms of life. There is a bitter struggle for existence and only the fittest survive. No two individuals of a given species are exactly alike, and the force of natural selection determines the survival of that variation which is best suited to its particular environment. The unfit or ill adapted must perish, and the factor of heredity tends to preserve the favorable traits.

Progress is made by the process of artificial rather than natural selection. The factor of intelligence changes the situation somewhat. Man is greatly influenced by his environment, but he is also able to change his environment. For illustration, the glacial epoch created new species of plants and animals by the process of natural selection. Man, however, was an adaptable animal. He built caves, invented clothing, and discovered fire. He changed his immediate environment and survived. Evolution is the story of passive adaptation or extinction. Progress is the story of active adaptation to avoid extinction.

It was formerly thought that the white man could not live in the tropics, but the recent sanitary projects, such as those carried out in the Panama Canal Zone, have conquered these areas by the weapons of modern science. They have been made safe for the civilizations of temperate nations. Irrigation projects and mountain tunnels are additional illustrations of active adaptation. By man's conquest of nature we do not mean that he has succeeded in changing natural laws, like Ajax defying the lightning, but rather that he has come to understand the forces of nature and is able to use them constructively instead of letting them spend themselves in some destructive fashion.

10. Economic Progress and the Physical Environment.—Man's first adaptations to the physical enviroment were more accidental than conscious, although a useful device was imitated and remembered. As compared with the achievements of the lower animals, such as the nest building of birds, human adaptations were less instinctive and more a matter of reason. Finding that a tree which had fallen across a stream provided an excellent method of crossing, primitive man imitated in other places and thus invented his first bridge.

The great purposive inventions of today rest upon the more or less accidental discoveries of prehistoric times. The modern steam engine

would have been impossible without the fortunate discovery of fire some time in the long forgotten past and its conscious utilization throughout the centuries of recorded history. The twentieth century skyscraper is but the latest stage in the evolution of housing which began centuries ago when a half-naked savage built a rude shelter for protection against the cold, the rain, and the wild animals.

Economic changes are still in progress and social adjustment to them necessarily lags behind. Thus, the Industrial Revolution is a relatively recent but extremely important development in man's conscious adaptation of his physical environment. The Industrial Revolution in its narrowest sense means the changes involved in the invention of power machinery and the introduction of the factory system.

Modern technology is the latest chapter in the growth of acquired knowledge. It may be defined as the application of the scientific method to the problems of economic production. Modern technology as expressed in the inventions of the Industrial Revolution was the fruition of the intellectual freedom and the birth of science which took place about the time of the Renaissance. Man's control over the forces of nature increased enormously and active adaptation was no longer haphazard. Time and space were conquered by such inventions as the railroad and the telegraph. The new power machinery produced in a few minutes what thousands of craftsmen had formerly taken months to do.

Truly, the Industrial Revolution has created a new world, the wonders of which could never have been imagined by the fathers of the American Revolution. When Benjamin Franklin flew his famous kite he little dreamed of the wonderful possibilities of electricity. Today, electricity bids fair to displace the steam engine. One is dazzled when he attempts to project into the future the past accomplishments of applied science. If physical adaptation or control over the forces of nature be any test of economic progress, there is surely proof in abundance not only of the fact of economic progress but also of its accelerated rate.

11. Economic Progress and the Social Environment.—Active adaptation can be witnessed not only in man's relation to his physical environment but also in relation to his social environment. Progress includes not only the process of invention and discovery but also the development of increased cooperation and improved social control. The ability to live with one's fellows is almost as important as the ability to live in a particular physical environment. Thus, the development of a better social organization is as important as the process of inventions and discoveries. Social progress may be traced in the development of institutions just as economic progress may be seen in our technological advances.

Social adjustment, however, is often slower than physical adaptation. The atmosphere of custom into which every child is born influences

him as much as his physical environment. Tradition envelops all of us like a cloud, unconsciously determining almost everything that we do, from the language we speak to the dress we wear.

Individuality is limited and represents but a small variation upon the customs of the group. We take almost everything as we find it, and accept the group traditions from baseball to democracy. As the child learns the mother tongue, so he imbibes the customs and moral ideas of the group, regarding them, finally, as his own. Our economic concepts and moral ideals are only partially our own. They are more largely those of the group in which we live.

Independence of thought is both relative and rare. It is comparatively recent that tolerance and sympathy with those of different ideas and ideals have developed. The mere epithet of "Bolshevistic" or "socialistic" is still sufficient often to prevent the serious discussion of any proposed change. Economic reform faces the problem of group prejudice as well as social inertia.

Each group has its own collection of social and moral ideas which it believes to be the best and the truest. Thus the "cake of custom" is hard to break. It may be done, however, by forces from within or by forces from without, that is, by internal revolution or by foreign conquest. In the past, the method of conquest has been the more common. Internal revolutions are violent changes in the customary habits of thought which are shattered in favor of more liberal ideas.

It is difficult, however, to make changes in social institutions. Thus, Peter the Great found trouble in westernizing Russia and the French Revolution resulted in frightful carnage. In our own day the Russian Revolution is an attempt to shatter centuries of crystallized ideas and traditions. In modern China we can see a nation of four hundred millions attempting to adjust themselves to a new economic and social environment. Ancient custom is wrestling with modern science for control.

By the bloody path of war and revolution, history has progressed, and modern man has become heir to the culture of other ages and civilizations. Such knowledge of other cultures should rid him of group provincialism, while a liberal education should free him from the bonds of superstition and an ignorant worship of tradition. Obsolete machinery is scrapped, but too often obsolete ideas are zealously treasured. Old ideas may be sound, but they should not be regarded as valid merely because of their antiquity. Physical adaptation has apparently been easier than mental adaptation, as more progress has been made in the control of the physical environment than of the social environment.

Imitation has worked as a conservative force to preserve the folkways of the fathers. It may also work as a progressive force to spread inventions and new ideas when once originated. Fashion represents the changing or transient aspect of the social mind, just as folkways or

customs represent its permanent side. Fashion does not show a steady progress but rather a series of cycles.

A law of imitation is that the masses tend to copy the classes. Therefore, fashions represent the leisure class ideals of conspicuous consumption rather than those of work and service. It is necessary for the safety of democracy to suppress the extravagant fashions of the wealthy and, at the same time, to stimulate the development of wise social customs among the masses.

12. Social Control of Industry.—Social control is the influence of the group mind over the thoughts and actions of individuals within society. It should be more conscious than mere imitation, more purposive than mere tradition, and more rational than mere institutionalism. The aim of social progress is the development of public opinion and a group organization which is capable of preserving order and yet maintaining liberty.

It is necessary to build up by the process of education a social attitude of mind which is strong enough to withstand the alluring suggestions of the demagogue and yet plastic enough to withstand the molding forces of imitation and traditionalism. Social control can be developed only through a constructive program of education which creates a critical attitude of mind and at the same time a feeling of social responsibility. An intelligent public opinion which soberly discusses the civic problems of the day is the sole hope of democracy. It represents the most advanced form of social mind, just as the mob mind represents the lowest form of association.

A society, free but incapable of self-control, brought about the excesses of the Reign of Terror. On the other hand, a society kept in order by the iron hand of autocracy has its Bastille or its Siberia. Hardly had "the war to make the world safe for democracy" been brought to a conclusion before dictatorships arose in some of the "liberal" countries of Europe. Within the democratic United States policies are often dictated by political bosses rather than directed by the real wishes of the people.

Although the state is one of the most important institutions of society, it is by no means the only agency of social control. Both the family and the church are ancient social institutions which have exerted considerable power over the actions of individuals.

The church is essentially a conservative institution, but it has devoted much attention to social as well as spiritual welfare. Monks taught the dignity of labor and dispensed charity. The modern church has also established itself as an important factor in improving contemporary working conditions and standards of living.

The Industrial Revolution had a tremendous influence on the institution of the family which is no longer the powerful institution of social control that it formerly was. On the other hand, the school is becoming a more important social institution.

Other agencies of social control, which might be of far greater influence for increased social welfare than at present, are the newspaper, the theatre and the motion picture. Too often, however, they fail to hold before their millions of patrons the highest social ideals. The achievement of great wealth, irrespective of the methods employed, is often stressed. Individual acquisition rather than social service is featured.

The problem before civilization today is whether we can make a social adaptation which will be commensurate with our recent economic progress. If effective social control is not soon developed, modern industrial civilization will be similar to a high-powered automobile racing rapidly through the streets, but with no driver sitting at the wheel to direct its course. The world-wide specialization which the machine process involves necessitates increased cooperation and the highest possible social morality. The meat packer, the milkman, and the locomotive engineer hold in their hands the lives of thousands of other individuals.

The brotherhood of all men, both within a nation and among nations, is no longer a vague ideal, but it has now become an economic necessity. Otherwise, modern technology, the machine process, and specialization will have created an industrial Frankenstein which will, in turn, destroy its own creators. How to make our social organization and our social morality keep pace with our economic progress, as represented by our control over the physical environment, is the riddle of the sphinx, not to answer which means annihilation.

Professor Ross has stated this problem very clearly in a little book entitled "Sin and Society." The pirate who sailed the Spanish Main several centuries ago flew openly the skull and cross-bones from his mast, but the modern pirate walks disguised in polite society. Although wearing clean linen and possessing membership in exclusive clubs, he may be guilty of wrecking—financially if not physically—individuals and large corporations for his own private gains. The modern highwayman takes his toll not from the solitary pedestrian but from the unknown consumer. The unsocial individual adulterates foods, produces shoddy cloth, or sells questionable securities. He may not commit crime, but he is dangerous to society because he lacks a social conscience. Democracy is unsafe in the hands of friendly inspectors who fail to report unsanitary working conditions, the lack of fire precautions, and the existence of other illegal conditions within industry. A social morality is essential to economic interdependence and to political democracy. Effective and rational forms of social control are necessitated by the complex but impersonal character of modern industrial civilization.

13. Eugenic Factor in Economic Progress.—The importance of the physical and social environment in economic progress has been sufficiently stressed. The biologic factor of heredity, however, must be mentioned,

for these two forces are the twin currents of social science. Economic progress is conditioned as much by an improvement in the biological stock of the group as by an improvement of the social and economic environments.

Heredity is the biological factor which is responsible for the persistence of racial traits and family characteristics. It should be remembered, however, that all individual variations are not hereditary. Acquired characteristics are those achieved in the lifetime of the individual. Since they are not inherent in the germ cell, they are not transmissible. It is this biological fact which offers hope to those groups in society which are the victims of unfortunate environments. It prevents society from retrograding and keeps the "submerged tenth" of the slums from giving birth to progressively worse offspring.

It is obvious that the son of a man who lost an arm in an explosion will be born with two arms, and that the son of a Greek professor will be forced to acquire his knowledge of the classics by the same laborious study. Weak eyes may be inherited as well as a tendency toward literary pursuits. But the latter is more often the result of the social heredity of the child than of its physical heredity. Tuberculosis is a bacillus disease and is not hereditary, as are weak lungs which make for a susceptibility to tuberculosis. Insanity is also acquired, although a neurotic tendency may be inherited. Feeble-mindedness, on the contrary, is an inherent trait, and it will be passed on from generation to generation as long as feeble-minded individuals are permitted to propagate. This problem is one of heredity rather than one of environment.

A progressive society should constantly seek to improve its biological heredity by the elimination of degenerate strains. The eugenic factor in economic progress cannot be denied, although economists generally leave its analysis to the sociologists. The heights to which the group may climb are conditioned by the caliber of the men or women in that group. Can we consciously and constantly improve the biological stock of the group in a manner similar to that in which we are seeking to improve its physical and social environment? The answer of modern science is in the affirmative. For generations man has been breeding horses, dogs, and cattle, and thus constantly improving the stock. It is only recently, however, that he has thought of himself as a great biological experiment.

Under the leadership of such men as Sir Francis Galton the science of eugenics has come into being. The word *eugenics* is derived from the Greek and means *well born*. If we can give the children of tomorrow a good physical heredity, it will be their greatest asset in industrial progress. There now seems to be dawning a newer and higher concept

of family life which places the biologic welfare of children even before the mutual happiness of husband and wife.

The science of eugenics has come somewhat into disrepute because of the extreme measures which some reformers have advocated. These radical and often ill considered suggestions, however, should not discredit the entire movement. It must be remembered that there are both positive and negative eugenics. It is idle to dream of a scientific breeding of supermen. Human beings cannot be bred like horses and cattle for some specific characteristics. Individual men and women will continue to fall in love and to marry accordingly. It is even questionable how far eugenic restrictions should be placed around the marriage of the great majority of our population. For normal people eugenic reform can be carried on better by a campaign of education than by legal restrictions which have often been criticized as arbitrary.

For subnormal groups, however, more severe measures are necessary, if we are going to eliminate degenerate stocks in human society. Social debtor groups, including defectives, delinquents, and dependents, impede economic progress. In the interest of our future society it is imperative that we analyze causes of abnormality and prevent reproduction on the part of those with serious hereditary defects. Although other measures have been suggested, it is probably wisest to incarcerate degenerates, feeble-minded, and similar groups in specialized institutions where they will have permanent custodial care. By a gradual weeding out of these degenerate biological strains in society, social progress will be greatly accelerated. The economic costs of institutional care for those having serious, anti- social, hereditary traits will fall upon the present generations, but it will pay enormous dividends to posterity. In the long run it will be economical as well as socially desirable.

14. Role of Democratic Education in Economic Progress.—In addition to the improvement of the physical heredity and the social and economic environment of the group, there is a third method of progress which we may term the "educational." From an individual point of view a liberal education includes the right of self-expression and the fullest possible development of one's inherent ability. Intelligence is inherent but knowledge is acquired. The ideal education is that which permits each individual to develop along the lines of his peculiar abilities and to the limits of his native capacity. From a social point of view it includes the transmission of acquired knowledge from one generation to another with the constant process of variation, selection, invention, and improvement.

As acquired knowledge is not hereditary, it is imperative that the intellectual product of past ages be passed on to future generations. Civilization is a cumulative process and includes the conserving of past knowledge as well as the discovery of new information and methods.

The process should go on with accelerated speed, for the discovery of new knowledge makes easier the further process of discovery. The acquired knowledge of prehistoric times was a slow process, but modern scientific investigation has succeeded the former haphazard trial and error method.

It should also be remembered that education involves more than an improved technology. Although civilization rests on a materialistic basis, social welfare consists of more things than mere physical well-being. Man cannot live by bread alone, and economic progress must be accompanied by commensurate cultural advances. It must not be forgotten that the finest flowers of past civilizations were their art, literature, and spiritual ideals.

Education involves the wider dissemination of existing knowledge, as well as the discovery of new truth. Economic progress depends upon both methods. Lester F. Ward, the pioneer American sociologist, pleaded for the democratization of knowledge and believed human ability to be widespread. Genius is rare but it crops out in humble and unexpected places. It is not necessarily the product of Norman blood. Indeed, recent investigation has shown that some so-called "blue blood" does not represent the best biological heredity. The importance of heredity is not discounted but rather the assumption of biological superiority upon the part of certain races, classes, and families.

The absence of democratic school systems in earlier centuries was responsible for many a "mute, inglorious Milton" or a "Cromwell guiltless of his country's blood." Educational equality of opportunity did not then exist. The schools of tomorrow must educate leaders as well as efficient workers and loyal citizens. The future progress of the labor movement is conditioned by intelligent and unselfish leadership. Knowledge and service must go hand in hand if the ideals of economic progress and social welfare are to become living realities.

15. Summary.—Social unrest against existing economic injustices has often reflected itself in the creation of Utopias. They are interesting as idealistic descriptions of existing social conditions. But as society is dynamic its standards are ever changing. Its ideals are constantly advancing as society progresses.

Progress is more than mere change, because it implies change in the direction of greater social welfare. Neither is progress mere evolution, for the former term implies a conscious and active process as compared with the natural selection of the latter. Among the ideals of economic progress are prosperity, conservation, efficiency, and equality of opportunity.

Although the existence of progress in general may be challenged, there has certainly been economic progress in the sense of a superior adaptation to the physical environment. By a consideration of the

antiquity of human society and the comparative recency of certain great movements, such as the Industrial Revolution, one can obtain an intellectual perspective which makes for optimism. Although progress does not travel in a straight line, there is room for believing that economic progress is both cumulative and accelerated.

It would seem that man's social adaptation has not kept pace with his physical adaptation. Economic progress is impeded by the presence of traditional methods of thought, by the absence of a strong social conscience, and by imperfectly developed agencies of social control.

Maladjustments are those obstacles in the economic and social environment which hinder progress. They have been attacked by state legislation, by organized labor, and by socially minded employers. Progress may take the evolutionary method of attempting to eliminate certain economic maladjustments or the revolutionary method of seeking to remodel the entire industrial system.

Economic progress is also conditioned by the biological factor of heredity. The advancement of the group can be achieved by the progressive elimination from society of certain degenerate strains. In addition to the improvement of the social and economic environment and the betterment of the physical heredity of the group, there still remains the factor of education in economic progress. It goes without saying that none of these methods of progress are mutually exclusive but rather that they are all necessary and interdependent.

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————, "Social Control."
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SELIGMAN, E. R. A., "The Economic Interpretation of History."
SIMONS, A. M., "Social Forces in American History."
SUMNER, W. G., "Folkways."
TODD, A. J., "Theories of Social Progress."

Questions for Discussion

1. Give the analogy of adjustment from nature.
2. Illustrate economic and social maladjustments.
3. Differentiate between passive and active adaptation.
4. Differentiate between evolution and progress.
5. Expla n what you understand by man's mastery of nature.
6. Explain and illustrate the importance of the social environment.
7. Show to what extent your economic views are your own and to what extent they reflect those of your social group.
8. To what extent is social control an economic problem?
9. To what extent is the improvement of the biological stock of the group a problem of economic progress?
10. Show the implications of the educational method of economic progress.
11. Illustrate the ideal of progress as conceived by the authors of certain famous Utopias.
12. Name and explain certain ideals of a progressive economic society.
13. Can our economic competition be compared to the biological struggle for existence? If so, how? If not, why not?
14. Why is social justice a problem of adaptation?

Topics for Investigation

1. PLATO'S "Republic."
2. MORE'S "Utopia."
3. A comparison of the great men theories of Emerson and Carlyle.
4. The economic interpretation of history.
5. Patten's economy of pain and pleasure.
6. Positive and negative eugenics.

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